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FINANCIAL TIMES

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Monday February 26 1990

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World News

Mandela calls for end to factional fighting

Nelson Mandela, the leader of the African National Congress, yesterday made a plea for peace in South Africa's province of Natal. He told a rally of supporters to throw their weapons into the sea to stop the fighting. Courtroom unpopularity among the vast crowd, he urged reconciliation with Inkatha, the Zulu movement headed by Chief Mangosuthu Buthelezi. Page 2

Bulgarians march

More than 90,000 Bulgarians, frustrated with the slow pace of reform, staged the largest anti-Communist protest since the ousting of veteran leader Todor Zhivkov in November. Leaders of the opposition Union of Democratic Forces were cheered as they called for an end to Communist rule. Page 2

Nicaraguan polls

Voting opened yesterday in elections which allow Nicaraguans to pass their verdict on 10 years under the ruling Sandinista National Liberation Front (FSLN), which faces a strong challenge from the US-backed National Opposition Union (UNO). Page 2

Nato differences

Belgian Foreign Minister Mark Eyskens said there was no chance for Nato to modernise its short-range nuclear forces in Europe, given the prospect of German unity and democratic changes in eastern Europe. His comments on the topic are likely to cause a stir in the alliance which had agreed to put the modernisation issue on ice until 1992. Page 3

Call for Arab protest

Iraq's President Saddam Hussein said Arab states should divert some of their billions of dollars in investments in the US to eastern Europe and the Soviet Union to protest against US support for the new wave of Jewish immigration to Israel. Page 2

Philippines rally

The Philippines marked the fourth anniversary of the overthrow of former President Ferdinand Marcos with a 20,000-strong rally but the nation, recovering from its sixth coup in 11 years, had little to celebrate. Page 3

Stand collapses

At least 45 people were injured, 26 seriously, when a spectator stand collapsed during a soccer game at Kossaud in western Turkey, the Anatolian News Agency said. Page 3

Pressure on Israel

Under continued pressure from Washington and Cairo, the Likud and Labour wings of Israel's national unity coalition are edging towards an agreed formula for Israeli-Palestinian peace talks. Page 2

Cambodia talks

Cambodia's warring factions meet in Jakarta today in a new attempt to end the war. Diplomats say there would be some headway in trying to end 11 years of fighting through a comprehensive solution is still a long way off. The talks are the first since an international conference in Paris broke down last August. Page 3

No Greek president

Greece's 300-member parliament failed in its second attempt to elect a new head of state with neither of the two candidates winning the necessary two-thirds majority. Page 3

Plan for drift net

The European Community is preparing to ban fishing for tuna with drift nets which ensnare whales, dolphins and other fish as they scoop up all marine life in their path. Page 3

Alert in Tibet

Chinese security forces were on alert for renewed pro-independence demonstrations in Lhasa today when Tibetans celebrate their new year festival for the first time under martial law. Page 3

Atlantis grounded

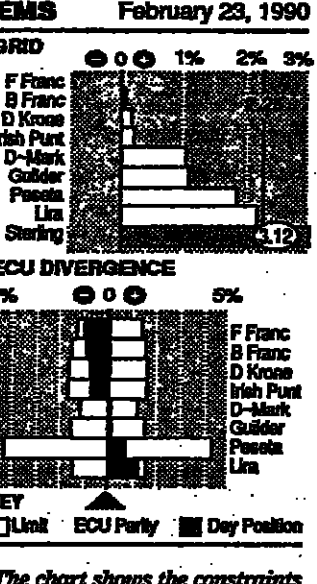
Launch of the US space shuttle Atlantis was scrubbed early yesterday, just 31 seconds from lift-off, because of a computer malfunction. The delay was the latest in a series caused by illness and bad weather. Page 3

Business Summary

Bush invites Kaifu to US to discuss trade friction

MR. TOSHIKI KAIFU, Japan's Prime Minister, has received a sudden invitation from President George Bush to visit the US this week to discuss growing trade friction between the two countries and developments in north Asia. Page 18

EUROPEAN Monetary System: A relatively depressed D-Mark helped limit pressure in the EMS last week, although the lira threatened to rise above its divergence limit against the French and Belgian francs. The French franc finished as the weakest currency, but rose to a five-month high against the D-Mark on Friday. The lira was strong despite disagreement within the Italian coalition Government. At the Milan fixing on Friday the Bank of Italy bought D-Marks as the lira touched its highest level against the D-Mark since early December.



ECU DIVERGENCE: The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which the pound may move by only 2 1/2 per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (ECU).

BRITISH Airways has launched a three-year plan to improve the deteriorating financial performance of its European operations - which accounted for 40 per cent of annual turnover, but contributed only £18m (£27m), less than 2 per cent, of operating surplus in 1988-89. Page 10

SAATCHI and Saatchi is prepared to listen to "any reasonable proposition" short of selling or diminishing its core business to bolster its prospects in the wake of last week's collapse of confidence in the company. Page 18

CHICAGO-based Tribune Company stated categorically that it has no intention of selling the New York Daily News to Robert Maxwell who was taking place. Page 20

GENCOR, South Africa's second largest mining house, is to merge the oil refining and distribution networks acquired when it bought the US oil giant, diversified its South African oil and gas interests last year. Page 23

SIR DEREK ALLEN-JONES, has received a substantial pay-off following his resignation as chairman and chief executive of Ferranti International, defence equipment group. Page 20

FINISH bank workers have rejected a mediation plan to end their strike over pay and days off, which has closed most banks all month. Page 2

BRAZILIAN inflation in February rose 73 per cent - the highest monthly increase in the nation's history. The annual rate is now 171 per cent since January and has reached 2,751 per cent during the last 12 months. Page 2

GAMMA Holdings of the Netherlands will buy a 55 per cent controlling stake in Belgian textile business, De Witte Liefers, and launch a formal takeover offer for the remaining shares. Page 23

SPAIN'S big banks look set to begin a deposits war when Banco Espanol de Credito (Banesto), starts paying interest on current accounts in a challenge to a similar move by Banco Santander. Page 23

OWNERS of Al Rayan, Egypt's biggest finance house, went on trial on charges of massive fraud against 187,000 depositors whom it is alleged were cheated of almost £22bn (£765m). Page 2

Bush and Kohl say a united Germany must stay in Nato

By Lionel Barber in Washington and Quentin Peel in Moscow

MR. GEORGE BUSH, US President, and Mr. Helmut Kohl, Chancellor of West Germany, yesterday agreed that a unified Germany should remain a full member of Nato, and that US troops should remain as a guarantor of stability in Europe.

But the Soviet Union's Foreign Ministry yesterday flatly rejected any proposal that Germany should be part of the western military alliance.

The US-German agreement, which is aimed at reassuring western allies and Germany's neighbours alarmed at the pace of reunification, was reached after two days of talks at the presidential retreat outside Washington at Camp David, Maryland.

Under the agreement, Germany would remain a full member of the western alliance.

What is now East Germany would have a "special military status" which would take into account the security concerns of "all interested parties including the Soviet Union", and could involve Soviet troops remaining for a transitional period.

Dismissing fears about a resurgent Germany in the centre of Europe, Mr. Bush spoke of West Germany's 45-year-old democracy and its membership of Nato. "The enemy is unpredictable and instability."

Mr. Bush was asked how he would respond if Mr. Gorbachev opposed a reunited Germany being in Nato. "We will reason together - and it will all work out."

Mr. Kohl, expressing "profound gratitude" for Washington's support, pledged that a reunited Germany would respect the security of neighbouring states.

He avoided delivering a clear-cut promise, however, on the Polish border issue which the Administration had pressed to extract during the weekend talks.

Immediately after Mr. Kohl spoke, Mr. Bush stated that the US supported the inalienable right of borders under the 1975 Helsinki security and co-operation agreement and declared that the US formally recognised the

current German/Polish border. The purpose of the Camp David meeting was to reach a common understanding on broad political security issues before the March 18 elections in East Germany, which are expected to lead to the creation of a united legal and political entity within a matter of weeks.

The two leaders said they had not agreed to a firm timetable on reunification, nor how exactly the "two-plus-four" mechanism - involving the two Germanies, the US, Soviet Union, France and the UK - would work.

"The big point is to keep each other informed," said Mr. Bush. The Administration was irritated last December when, with little forewarning, Chancellor Kohl set out publicly a 10-point plan for unity.

Mr. Bush acknowledged concern about German reunification in Western capitals, Moscow and Warsaw, but he emphasised that the US had no right to speed up or slow down unification - it was a matter for the Germans to decide.

This was sharply at odds with yesterday's Soviet statement. The policy-making collegium of the Soviet Foreign Ministry suggested that any outcome to the debate on German unification which involved membership of Nato "would lead to an inadmissible upsetting of the military-strategic balance."

The Foreign Ministry insisted that "the underlying principle from our point of view is that the process of building German unity should exclude once and for all the possibility that Germany will be a threat to peace."

The statement came before the joint US-German announcement, and was clearly aimed at reinforcing the Soviet position.

This appears to be much more restrictive than the position taken by Mr. Mikhail Gorbachev when he met Chancellor Kohl in Moscow recently. Then the Soviet position was that the two Germanys must sort out the details of their own relationship, while taking into account the security interests of their neighbours.

● Kohl warning, exodus continues, Moscow poll, Page 4



Pro-democracy rally in Moscow yesterday being observed from a roof-top by the city's police chief (second right). The crowd, estimated at 150,000, called for the Communist Party to sit down at a round table with opposition groups. The authorities defused the demonstrations, which took place in many other cities across the Soviet Union. Page 4

Lithuanian independence group sweeps to victory

By Paul Winfrey in Vilnius

THE SOVIET republic of Lithuania's independence movement, Sajudis, swept to victory in the Soviet Union's first multi-party elections on Saturday, according to unofficial election returns gathered by Sajudis representatives.

The victory sets the republic firmly on course for full secession from the Soviet Union. Anti-Communist Party sentiment, meanwhile, brought crowds of up to 100,000 on to the streets of Moscow yesterday, in spite of official warnings of possible violence, to call for Communist leaders to step down and for radical reforms to the Soviet system.

The demonstrations passed off peacefully. However they were smaller than had been hoped for by opposition groups which had sought a massive show of strength a week before voting in the country's Slavonic republics of Byelorussia, Ukraine and Russia.

In Lithuania, however, reliable data available on 90 of the 141 seats contested showed that Sajudis-backed candidates were claiming 73 victories, a margin which would give them an 80 per cent majority in the first Lithuanian Supreme Soviet to be chosen in free elections, if the pattern is continued in run-offs to be held in two weeks.

The result will give the Lithuanian parliament a big majority in favour of secession and comes only weeks after Mr. Mikhail Gorbachev, the Soviet leader, visited Vilnius to plead for the republic to remain in the union.

Candidates from the Independent Communist Party who were not backed by Sajudis won a meagre nine seats. Mr. Algirdas Cekotius, a Communist candidate endorsed by Sajudis, said: "If this is not a landslide, what is?"

Mr. Virgilis Cepaitis, secretary of Sajudis, said: "The Communist Party is finished in Lithuania," as the results were posted on the bulletin board in Sajudis' Vilnius office.

Although the elections were touted as the first multi-party balloting in Soviet history, endorsement by Sajudis, an umbrella independence group which claims it is not a political party, remained more important than political affiliation.

Among the new parties, nine Social Democrats, two Greens and two Christian Democrats were elected. No one was elected from the new parties not endorsed by Sajudis. Mr. Romualdis Ozolas, vice-president of Sajudis, said: "None of the new parties is very strong. Therefore, personalities still express political ideas more than parties."

Mr. Algirdas Brazauskas, the Communist Party boss, was the real loser. He gambled in December that leading the Lithuanian Communists out of the Soviet Party to form an independent Lithuanian Party would make the group a credible political force.

Mr. Brazauskas was rewarded for his defiance with a 91 per cent victory in the district where he was running, but his new-found popularity failed to carry over to the party he leads.

Twenty-two Lithuanian Communists were elected but 13 of them had Sajudis endorsements, leaving the non-Sajudis Communist Party with nine seats. The disastrous showing was a sign that in Lithuania, as in much of eastern Europe, voters are unwilling to accept even reform-minded Communists after 40 years' rule.

Run-offs for seats where candidates failed to win more than 50 per cent of the vote will be held in two weeks. However, most citizens in this republic of 3.5m people interpreted the results as an overwhelming mandate for the republic to secede from the Soviet Union, perhaps as soon as the spring.

Mr. Vytautas Landsbergis, the Sajudis leader, who was elected in Panevezys district with a 62 per cent majority, hopes the new parliament will convene in April and immediately begin talks with Moscow to re-establish Lithuanian independence.

Observers expect a coalition government will emerge from the new parliament, possibly even retaining Mr. Brazauskas as head of state.

First Boston confirms exposure

By Alan Friedman and Janet Bush in New York

CS FIRST BOSTON, the Wall Street securities house, has admitted that it has a junk bond-related loan exposure of \$1.2bn as part of an effort to counteract concerns that it is in financial trouble.

Fears about the health of First Boston have been mounting since Drexel Burnham Lambert filed for bankruptcy two weeks ago. First Boston is believed to be the investment bank with the largest exposure to the distressed junk bond market after Drexel.

In a determined effort to quell market speculation, First Boston, 44.5 per cent owned by the parent of Credit Suisse, the Swiss bank, took the unusual step of releasing to the press an internal memorandum to its employees.

The memo states that the company had "sufficient back-up credit resources to weather any short-term disruptions caused by fall-out from the Drexel bankruptcy."

The memorandum is signed by both Mr. Jack Hennessy, president of CS First Boston, and Mr. Rainer Gut, chairman of Credit Suisse. Mr. Gut's signature was intended to reassure employees that the Swiss parent would not abandon the US company.

The memorandum reveals that First Boston made a modest \$11m profit for the whole of 1989 after "making a significant contribution to our reserves" for its exposure to the bankrupt Campeau retail empire.

The \$1.2bn of junk-related "bridge loan" exposure includes \$257m of debt from Campeau's Federated Department Stores subsidiary and \$835m of other dubious loans to Ohio Mattress Company, Jerico and AML. All of the companies were to be financed by junk bond issues.

First Boston said that although its equity capital was only \$1.1bn, it had combined capital and reserves of nearly \$2bn, enough to cover any further losses.

Moody's Investors Service's concern about the company's "appetite for making subordinated loans to leveraged buy-outs and its exposure to junk deals such as Ohio and Federated" led it to downgrade First Boston's long-term credit rating in November.

CS Holding, First Boston's parent, said last week that it was examining the possibility Continued on Page 18

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OVERSEAS NEWS

Mandela urges supporters to end factional fighting

By Paul Weldmeir in Durban

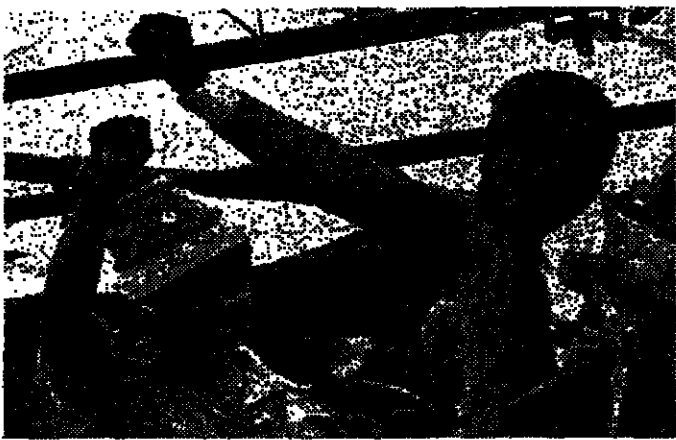
MR Nelson Mandela, leader of the African National Congress, yesterday made a plea for peace in South Africa's troubled province of Natal, telling a rally of some 60,000 of his supporters to throw their weapons into the sea to stop the fighting.

Courting unpopularity among the vast crowd which sat crosslegged on the playing fields of the King's Park stadium in Durban, Mr Mandela, freed from jail this month, urged reconciliation with Inkatha, the Zulu movement headed by Chief Mangosuthu Buthe.

He said he would soon meet the Zulu monarch, King Goodwill Zwelithini, for talks aimed at ending factional fighting which has left 3,000 blacks dead in the past four years. Earlier, Mr Walter Sisulu, another senior ANC leader, had said Chief Buthe would also attend the talks.

Mr Mandela said the fighting - which pits supporters of the ANC and its affiliates, the Congress of South African Trade Unions (Cosatu) and the United Democratic Front - was hindering the struggle against apartheid.

The ANC leader pleaded with the crowd: "My message



Winnie and Nelson Mandela salute yesterday's crowd in Durban.

to those of you involved in this battle of brother against brother is this: take your guns, your knives, your pangas, and throw them into the sea."

Mr Mandela made several conciliatory gestures towards Chief Buthe, the Chief Minister of the KwaZulu black homeland, who is accused by many ANC supporters of collaborating with Pretoria. "We extend the hand of peace to Inkatha and hope it might one day be possible for us to share a platform with its leader, Chief Buthe," the ANC

leader said, provoking boos from the crowd.

He commended Inkatha for demanding the unbanning of the ANC and the release of political prisoners, adding that it "had contributed in no small measure to making it difficult for the regime to implement successive schemes designed to perpetuate minority rule."

Mr Mandela's comments were welcomed by one senior Inkatha official, who said after the rally he expected a significant easing of tensions as a result.

Washington braced for possible Sandinista victory

By Tim Coone in Managua and Lionel Barber in Washington

MR JIMMY CARTER, former US president and an official observer of the Nicaraguan elections, said yesterday that if polling was free and fair he would make "a very strong recommendation" to President George Bush to lift US economic sanctions against Nicaragua and to normalise relations.

Mr Daniel Ortega, Nicaragua's President and candidate of the ruling Sandinista, has also said that if re-elected, his Government will stop arming leftist guerrillas in El Salvador. This would remove another key obstacle to relations.

Voter turnout appeared to be heavy as polling was held yesterday. Queues began forming outside polling stations as early as four in the morning in the capital. Poll experts said a heavy turnout was likely to favour UNO, the US-backed opposition alliance.

The atmosphere was calm and Elec-

toral Council regulations prohibiting the display of party propaganda at polling stations, including the wearing of T-shirts or hats with party slogans and symbols on them, were strictly observed.

According to one report, US-backed Contra rebels attacked two villages in the north of the country which are known for their strong support for the ruling Sandinista party (FSLN). No other serious incidents were reported, however.

The total number of registered voters has increased by 190,000, or 12.2 per cent, to about 1.75m since the last elections in 1984. The abstention rate then was nearly 25 per cent, with a further 6.7 per cent of ballots spoiled. The abstention and null vote rates are expected to be substantially lower this time.

Analysts will be waiting to see

whether the FSLN has been able to hold on to the 735,000 votes it obtained in 1984, or to increase them. A high turnout combined with only a stable vote for the FSLN could produce a very close result and almost certainly the loss of the FSLN's absolute majority in the 92-seat National Assembly.

The Bush Administration - bracing itself for a possible Sandinista election win - has set several conditions before a normalisation of relations can occur and a long-standing trade embargo is lifted. Among the most important is a halt of Sandinista military support for the Farabundo Marti National Liberation Front.

President Ortega's remarks on ending support for the guerrillas were made in an interview with the New York Times on the eve of the elections. They suggested that the Sandinistas may be prepared to do a deal with Washington

at the expense of the guerrilla coalition. The US has hoped that a popular wave of discontent with the Sandinistas - coupled with the dire state of the Nicaraguan economy - would propel Mrs Violeta Chamorro, the US-backed opposition candidate, to victory. But officials have begun to adjust to the prospect of a Sandinista win and spell out publicly what is likely to be a guarded US response.

Last week, Mr James Baker, US Secretary of State, told Congress that the US would expect "a substantial period of good behaviour" as well as the end of military aid to the FMLN in line with the Esquipulas regional accords. Mr Baker also refused to commit the US unconditionally to the verdict of international observers headed by the UN, the Organisation of American States, and Mr Carter on whether the election is free and fair.

Israeli coalition edges towards peace talks formula

By Eric Silver in Jerusalem

UNDER continued pressure from Washington and Cairo, the Likud and Labour wings of Israel's national-unity coalition are edging towards an agreed formula for Israeli-Palestinian peace talks.

Mr Moshe Arens, the Foreign Minister, returned from the US yesterday and was reporting last night to Mr Yitzhak Shamir, the Prime Minister, on his talks with Mr James Baker, US Secretary of State. Mr Shamir is expected to call a

meeting of senior ministers soon to review developments.

Mr Baker pressed the Israelis for an early answer to an US proposal already endorsed by Egypt and the Palestine Liberation Organisation. He told Congress last week: "We need action. We've done a lot of talking."

The sense of urgency was reinforced in Jerusalem yesterday by a normally conservative US Jewish leader. Mr Seymour Reich, president of the Confer-

ence of Presidents of Major Jewish Organisations, said: "Clearly the next two weeks are very critical in this process. Baker has indicated that he's got a lot on his plate in terms of world issues and that he wants a response. I think he is deserving of a response shortly, and I think the Israeli cabinet will have to make a decision."

Labour threatened last week to break up the coalition if the right-wing Likud did not agree

by March 7 on terms for advancing the long-stalled peace process. With the Likud torn by factional rivalries, Mr Shamir is reluctant to face a showdown with his main partner.

In informal soundings over the weekend, he is reported to have reached a tentative agreement with Mr Yitzhak Rabin, the Labour Defence Minister, on the issue of the composition of the Palestinian negotiating team. It would include a deported activist and a leading

Arab journalist. The journalist, Mr Radwan Abu Ayyash, has served two terms of administrative detention. He was born in a refugee camp and lives in Ramallah. His nomination would satisfy Likud, which refuses to allow Jerusalem Arabs any part in the proposed transitional elections, but may not be enough for the Palestinians, who are equally determined that Jerusalem should be included in any West Bank agreement.

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Saddam seeks Arab economic lobby of US

By Lamia Andoni in Amman and Tony Walker in Cairo

ARAB states should divert some of their billions of dollars in investments in the US to eastern Europe and the Soviet Union in protest at US support for the new wave of Jewish immigration to Israel, Iraq's President Saddam Hussein said at the weekend.

The Iraqi leader's remarks reflect growing anger and dismay in the Arab world at the US role in facilitating the emigration of thousands of Soviet Jews to Israel.

Just as Israel has certain lobbies to pressure the American Administration," he told fellow Arab leaders at a summit in Amman, "so hundreds of billions invested by the Arabs in the US and the West may be similarly deployed."

President Hussein, in a thinly veiled criticism of Arab

moderates such as the wealthy pro-American Gulf states, said the Arabs too often had been reduced to "ineffective rejection or alienation" by Washington's support for Jewish immigration to Israel. "As a result," he said, "the US does not take Arab positions seriously."

The leaders of the four-nation Arab Co-operation Council, grouping Egypt, Iraq, Jordan and North Yemen, have called for a special meeting in Tunis next month of Arab Foreign Ministers to plan a campaign against the new wave of Jewish immigration.

The ACC leaders accused Washington of being responsible for the influx, and branded it "an open aggression against the rights of the Palestinian people and a threat to the Arab order and current Middle East peace efforts."

NEWS IN BRIEF

Fraud trial against Cairo financiers begins

OWNERS of Al Rayan, Egypt's biggest finance house, went on trial yesterday on charges of massive fraud against 187,000 depositors whom it is alleged were cheated of almost £22bn (\$45bn).

Defendants included Mr Ahmed Tawfik al-Fattah, the company chairman, his father, brother, two company employees and eight businessmen accused of assisting in the transfer of millions of dollars abroad.

The Al Rayan principals were arrested in late 1988 after the Government cracked down on the Islamic deposit-taking sector. The Islamic companies prospered by offering depositors much higher rates of return than the banks. These institutions were widely accused of operating "pyramid" schemes whereby they paid dividends from the funds lodged by new depositors.

Brazil inflation 73% for month

Brazil's inflation rate in February rose 73 per cent, the highest monthly increase in the nation's history, the Government said, AP-DJ reports from Rio de Janeiro.

February's inflation, calculated during the first 23 days of the month, jumped from January's rate of 56.1 per cent, according to the Brazilian Geography and Statistics Institute. The Government recognises the institute's figures as official.

Inflation is running at an annual rate of 171 per cent since January and has reached 2,761 per cent during the last 12 months, the institute reported.

Rome trade deficit down

Italy's trade deficit narrowed to £2.85 billion (£1.1 billion) in January from a deficit of £4.29 billion (£2.03bn) a year earlier, the State Statistical office Istat said, but the figures showed the gap worsened from December, AP-DJ reports from Rome.

The January deficit compared with a £3.88bn (£1.8bn) surplus in December. January's figures are provisional and not seasonally adjusted.

German bank lending up

The strength of the West German economy, with companies investing heavily to overcome capacity constraints at a time of high demand, has led to a sharp rise in bank lending, Andrew Fisher writes from Frankfurt. The Bundesbank said bank credits to the private sector in the past six months rose at a seasonally adjusted annual rate of 9.6 per cent.

Finnish bank impasse

Finnish bank workers rejected a mediation plan yesterday to end a strike which has closed most banks all month and said the stoppage would go on, Reuters reports from Helsinki.

Employers' leader Mr Eirikki Ropponen said the banks could be closed at least two more weeks. He said his side had been willing to accept the plan. No more talks were planned.

Turkish lira curbs raised

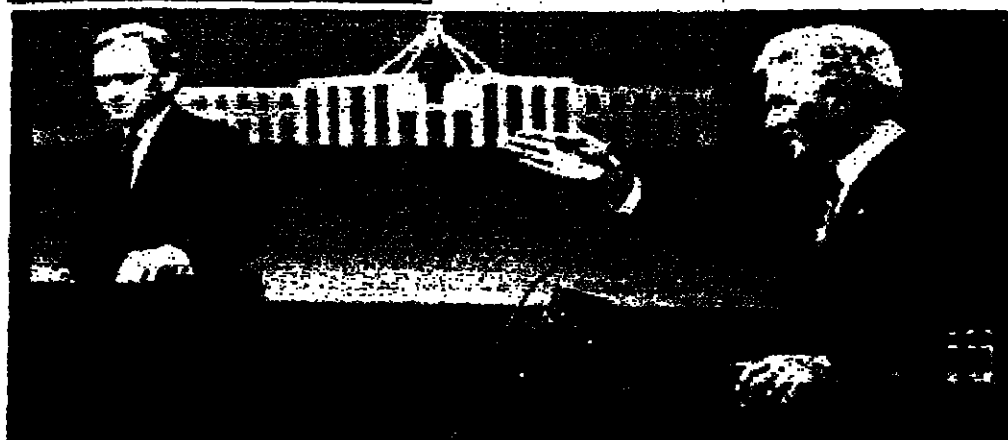
The Turkish Government took more steps towards full convertibility for the lira yesterday by raising the thresholds for free foreign exchange and capital outflows, Jim Hodgson writes from Ankara.

The Official Gazette said the upper limit on capital outflows which can be made without ministerial agreement had been doubled to the equivalent of \$50m. Turkey can also now take foreign exchange equivalent to \$5,000 abroad rather than \$3,000.

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OVERSEAS NEWS

Australian general election



Poles apart: Peacock and Hawke pitch for victory in yesterday's live TV debate

Party leaders fail to score points in 'Great Debate'

By Chris Sherwell in Sydney

A LIVE television confrontation between Australia's Prime Minister Bob Hawke and Mr Andrew Peacock, the opposition leader, last night highlighted the importance of economic issues in the country's election campaign, but almost certainly failed to help the large number of undecided voters.

The hour-long "Great Debate" - a structured, spontaneous affair at the end of the campaign's first week - saw neither man score new points or commit a serious error, and left both with everything to play for, ahead of polling day on March 24.

A forceful Mr Peacock declared the economy was on the "brink of collapse" and claimed his Liberal and National Party coalition had a co-ordinated policy programme to lift family living standards. "If you want more of the same, you'll vote Labor," he said. "If you want a change for the bet-

ter, the answer is Liberal."

An authoritative Mr Hawke pointed to a record of smaller government, jobs growth and a restructured economy under seven years of Labor Party rule, and claimed a decisive advantage in Labor's ability to control wages.

Whereas Labor was united, he added, "the Liberal Party is ridden with internal bitterness and hatreds, and there is fundamental division between the Liberal party and the National Party."

The debate, at Mr Hawke's insistence, unfortunately took place before either party had released its full policy statement. Under agreed rules, the two leaders made their own statements on each of three issues: the economy, social policy, and the environment.

On the economy, voters are unlikely to have found the results convincing. Mr Peacock insisted his anti-inflation programme, involving tighter fi-

scal policy, a freeing-up of the labor market to boost productivity and a steadier monetary policy, would mean "sustained" falls in interest rates, and lift employment rather than create unemployment.

For his part, Mr Hawke, when questioned about his government's persistent failure to meet its inflation and interest rate targets, linked interest rate levels to inflation and said inflation was determined principally by wages, but then pointed to Labor's success in beating its forecast wages out-

comes. On social policy, Mr Hawke claimed Labor had created a fairer society, only to hear Mr Peacock attack him for allowing the rich to grow richer and the poor poorer.

On the environment, Mr Peacock pointed to the opposition's record in government in creating national parks at Ayer's Rock, Kakadu and the Barrier Reef.

New attempt today to end Cambodian war

John Murray Brown and Robin Pauley on the factions' first talks since last year

A stark 1950s hotel, built as part of Japan's war reparations to Indonesia, is today the venue for the latest attempt to end the 11-year war in Cambodia.

Today's talks provide the first meeting between Cambodia's warring factions - the three-party resistance coalition and the Vietnamese-backed government of Hun Sen in Phnom Penh - since the withdrawal of the Vietnamese occupation forces and resumption of the civil war last autumn.

It will be their first opportunity to discuss together an Australian proposal that the UN somehow take over the administration of Cambodia pending elections.

The five permanent members of the UN Security Council in January endorsed the idea that the UN should play a greatly enhanced role in Cambodia, though they differ about what that role should be.

Also attending today's meeting will be the foreign ministers of Vietnam, Laos, the six members of the Association of South-East Asian Nations, Australia and France, as well as the UN's special Representative on Cambodia, Mr Rafusein Achmad. The US and Soviet Union are sending observers.

Internationally, at least, there is a new sense of urgency to find a permanent peace agreement for this war-ravaged former French colony. A settlement would allow Cambodia to rebuild its once-prosperous and resource-rich economy.

Any settlement will also have broad strategic implications wider afield than Indo-China and ASEAN. The major powers will be looking for changes in a region where the political and economic interests of the US, the Soviet Union and China increasingly intersect.

Cambodia gained independence in 1954. Since then, it suffered US bombing as the Vietnam War spread, and then civil war between Lon Nol and Pol Pot, the latter infamous as the architect of Cambodia's killing fields.



Tight-lipped Khieu Samphan on arrival in Jakarta yesterday

The Chinese-backed Khmer Rouge regime of Pol Pot devastated Cambodia in the years 1975-78, killing an estimated 1m of the 7m inhabitants until overthrown by the Vietnamese invasion on Christmas Day 1978.

The Australian plan sidesteps the problem of who will administer Cambodia during the interim period between a ceasefire and elections - the main stumbling-block at last summer's international conference in Paris. The proposal would give the UN far-reaching executive powers in the run-up to elections.

The UN would also supervise a ceasefire, and monitor the elections. A national council composed of all Cambodian factions would take over the country's seat at the UN - a variant of the idea that the UN seat be declared vacant.

"It's not intended to be a blueprint, but a map of possible ways to find a solution," said Mr Gareth Evans, the Australian Foreign Minister, clutching the 150-page working paper, on his arrival in Jakarta.

The document also considers the likely cost of such an operation. The

current UN monitoring operation in Namibia, involving 4,500 police, military and administrative staff, is costing \$515m (\$321m) for a year. The Australian document is understood to estimate minimum cost of the Cambodian operation at \$780m. Japan has already indicated it may foot a large part of the bill.

The Cambodian factions have still to agree. At their meeting in Bangkok last week, Prince Sihanouk and Hun Sen signalled their willingness to support the creation of a national council, and for the first time agreed that a significant UN role was "essential".

Hun Sen hitherto has rejected any participation by the UN, largely because Cambodia's UN seat is still occupied by the opposition coalition. He now argues that letting a national council occupy the seat until elections prevents "anyone losing face".

He has also proposed, as an alternative to the Australian idea, that Cambodia be temporarily divided, with two parallel governments, each in the territory it now controls, and each relinquishing part of its executive authority to the UN.

Khmer Rouge agreement to any of

this will most likely prove harder to secure. Mr Evans conceded the Khmer Rouge were "the least enthusiastic". But he said it was "important" the Khmer Rouge is not allowed to apply a veto over the process.

Chinese support for the Khmer Rouge is no longer assured, and Thailand, which allows the Khmer Rouge to run supply-lines across the Thai border, is now anxious for a settlement, even if it excludes a role for the Khmer Rouge. China's endorsement of an enhanced role for the UN with Khmer Rouge agreement suggests Peking may be ready at least to shorten the leash on its Khmer Rouge clients, the largest and most effective of the three resistance armies fighting government forces in western Cambodia.

The Soviet Union, preoccupied with its own domestic problems, has put pressure on Vietnam. Vietnam in turn seems willing to leave the fate of the régime it installed in Phnom Penh to the ballot box, particularly as Hun Sen has appeared an increasingly attractive prospect to both urban Vietnamese and to much of the international community.

Vietnam is keen to shed its isolated status in the international community and attract aid funds to reconstruct its

There is a new sense of urgency to find a permanent peace agreement, which would allow Cambodia to rebuild its resource-rich economy

own economy. At a ministerial meeting in Malaysia this month, ASEAN and the EC openly condemned the Khmer Rouge, and said it must not be allowed to regain power by force. The EC said it would not vote for the coalition to retain the country's seat at the UN when the Credentials Committee meets again in October.

This week, the Khmer Rouge, led by Khieu Samphan, may find itself further isolated at the talks which are designed to make enough progress to enable the stalled Paris conference to be reconvened.

However, recent history permits little room for great optimism, and once again, China's absence could prove the one real weakness in the Jakarta talks.

Manila finds little to celebrate

By Greg Hutchinson in Manila

THE Philippines marked the fourth anniversary of the overthrow of former-President Ferdinand Marcos with a 20,000-strong rally yesterday, but the nation, recovering from its sixth and most serious coup bid last December, had little to celebrate.

Hopes raised by the February 1986 revolt which drove Marcos to exile and thrust Mrs Corason Aquino into the presidency, are now in tatters.

The Aquino government is fighting to contain rising prices and corruption in a country still controlled by the rich and ultimately at the mercy of a fragmented army.

The "people power" revolution is Filipino democracy's curse. It has set a precedent for coup attempts which army rebels have been quick to seize on, and the Aquino government at a loss to counter.

The 1986 event, which saw crowds of up to 1m block Mar-

cos's tanks, has lent respectability to efforts to overthrow the Aquino government, including the last by Col Gregorio Honasan and other "reformist" officers.

Col Honasan, still on the run, has maintained Mrs Aquino betrayed the ideals of the "people power" revolution. He notes there has been no thorough economic and social overhaul, and that as one of the revolt's architects, he has the right to set the revolution on track again.

This view is shared by the lone opposition senator Juan Ponce Enrile, Defence Minister before he broke with Marcos to launch the 1986 revolt with the then deputy armed forces chief Fidel Ramos, as well as Col Honasan.

On radio, Mr Enrile, whom Mrs Aquino has publicly linked to the December coup attempt, said he regretted handing power to her in February 1986.

and apologised to the nation. Her "aimless leadership" had left the country poor and divided, he claimed.

Mrs Aquino, 57, widow of the murdered politician Benigno Aquino, turned Enrile at the anniversary rally, calling him an opportunist.

● The Philippines, which has a foreign debt of \$28.9bn (\$18.8bn), will sign a new money agreement with creditor banks in Tokyo on February 28, which promises more than \$700m in fresh loans.

The Government will seek from the 12-bank advisory committee the disbursement of about 60 per cent of this amount within three weeks of the signing of the Philippine bond programme.

Eighty banks are said to have committed new money. By Friday, a total of \$700m had been pledged. This amount includes \$27m committed by 10 local banks.

Top provincial official quits in Pakistan

THE top official in Prime Minister Benazir Bhutto's home province has stepped down after weeks of bloodshed sparked charges that the government could not maintain law and order, AP reports from Karachi.

Syed Qaim Ali Shah, Sind province's chief minister, resigned late on Saturday. On Sunday night, the provincial assembly elected a distant relative of the prime minister, Mr Aftab Shabazz Mirani, to replace him.

At least 70 people have died in recent ethnic strife in the southern port city of Karachi, which is Sind's capital and Pakistan's largest city, with 5m people.

Most of the clashes have been between supporters of Ms Bhutto's Pakistan People's Party and the Mohajir Qaumi Movement. The movement is largely made up of Moslem immigrants who fled Hindu-dominated India to predominantly Moslem Pakistan after 1947, when Pakistan was

founded and India became independent of Britain. The violence peaked on February 7 and 8. Clashes between police and sharpshooters belonging to rival political groups left scores dead and hundreds wounded.

The clashes were exacerbated by what many call the "Kashmiri" and heroin culture in Karachi, a main conduit for arms for anti-Communist Afghan rebels based in northern Pakistan and heroin for Western Europe.

The army moved in and the government slapped a series of curfews on the city. Some areas remain under army control. Still, violence continues.

The English-language Nation newspaper reported yesterday that a politician from the Mohajir movement was killed at the weekend while he was sitting in his shop.

Many officials in the ruling Pakistan People's Party have been highly critical of Shah's leadership, accusing his gov-

ernment of being unable to control the volatile situation. The developments in Sind were doubly embarrassing to Ms Bhutto because she comes from Karachi and looks to Sind province for political support.

The Mohajir movement also used to be a close ally of the prime minister. In October, it broke with her party because it said promises of more jobs and opportunities for the Mohajir people had not been kept.

In November, Ms Bhutto narrowly survived a no-confidence vote in the National Assembly after the 14 assemblymen from the Mohajir movement voted against her.

Since early February, elected officials from the Mohajir movement have boycotted the provincial assembly. On Sunday, only members of the Pakistan People's Party, which has a majority in the province, turned up to vote for Chief Minister Shah's replacement.



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CAPEX A/S
Investment Banking

February 1990

OVERSEAS NEWS

Kremlin mobilises TV to distract democrats

By Quentin Peel in Moscow

THE SOVIET authorities yesterday succeeded in detaining mass demonstrations, planned to take place across the country in favour of faster reform and multi-party democracy. The Government used repeated threats of possible violence, and the blatant blandishments of western pop videos and a lottery broadcast on television.

A huge crowd of some 150,000 gathered in Moscow even so, and thousands more in big towns and cities from Vladivostok in the far east to Minsk in the west, plus a big nationalist protest in Tbilisi, capital of Georgia.

However, the numbers who turned out to call for the ruling Communist Party to sit down at a round table with opposition forces were fewer than the organisers had hoped for, after rallies in many towns had been banned or restricted. An official meeting in Leningrad was completely boycotted by supporters of democratic organisations.

Last night, members of the democratic movement switched out their lights and lit candles in their windows, in silent protest at the campaign

of official intimidation and discouragement, which included a warning of government leaders' warning of violent confrontation at the rallies. Even a church leader was given prime time on television to urge his followers to stay at home to celebrate the first day of the Russian Orthodox Lent.

In Moscow, a new commercial television channel was brought into the campaign, announcing at short notice a day of the top Western pop videos of 1989, and a lottery programme with prizes including video tape-recorders and colour television sets, virtually unobtainable in Soviet shops.

In the event, the Moscow rally matched in size the last big demonstration of February 4, on the eve of the Communist Party Central Committee Plenum, which decided to scrap Article Six of the Soviet Constitution. (This guarantees the party's monopoly of power.) In spite of a heavy turnout of Interior Ministry troops, including men in full riot gear, the rally was organised and dignified, restricted to an official route along the city ring-road, well away from the Kremlin. Even the riot police

put down their shields. Slogans denounced the slow pace of perestroika. They also attacked President Mikhail Gorbachev for alleged appeasement of conservatives. The crowd marched in almost festive mood from Gorky Park and the Foreign Ministry to a meeting place on the ring road. There, the demonstrators diligently noted all the names of the "democratic" candidates they should support in elections next Sunday.

A resolution approved by acclamation called on the Communist Party to abandon not only its leading role, but also its privileged links with the real organs of Soviet state power, the KGB (state security committee) and the army.

The demonstrators - from various informal organisations, ranging from the Democratic Platform in the Communist Party, through Social Democrats and the dissident Democratic Union, to Anarcho-Socialists and even the Soviet Association of Esperanto speakers - called for direct elections to the presidency, which Mr Gorbachev proposes to make a powerful executive position.

OBITUARY

Pertini dies aged 93

SANDRO PERTINI, who died in his sleep on Saturday evening aged 93, gained enormous public affection during his term as President of Italy from 1978-85.

Although it is nearly five years since Sandro Pertini left the Quirinale Palace, many people's tears were being shed in Italy yesterday to testify to the enormous public affection he earned during his term as President of the Republic.

He died having lived a brief, dignified retirement after a long political career. Pertini's long political odyssey spanned the best and the worst of Italian 20th century history.

A bombardier in the First World War, his subsequent political activism in the Socialist Party was born of a profound rejection of the authoritarian, collectivist values imposed by Mussolini's Fascism. He escaped imprisonment in 1926 when he fled to Paris, only to return to Italy in 1929 as a clandestine political organiser for his party.

During the Second World War he was captured by the Gestapo and sentenced to death, only to cheat the firing squad by a daring escape from his Roman prison. By the war's end he had become a leading organiser of the Milanese partisans.

Though he could be calculating and quite ruthless, Pertini lacked the necessary skills attributes to be a natural leader in Italian post-war politics. By the time he was elected President in 1978 - by the largest ever parliamentary majority - he had become a

aged father figure who was expected to treat the highest office of state as a comfortable retirement post. Instead, he travelled widely at home and abroad and became the authentic voice of a people.

Large crowds of Italians stood silently, some weeping, outside Pertini's modest home near Rome's Trevi fountain, where in years past they would gather in festive mood to celebrate his birthday.

"He really was a sincere person. Most politicians keep their distance from the people but he was always near to us," said one young woman.

Pertini, who brought a new style to the presidency with his habit of hunching with the Quirinale Palace from a public call box, requested a simple private funeral.

His family said he would be cremated in Rome today and his ashes flown to his north-western home village of Stella, near Savona, to be placed with those of his parents.

The Italian cabinet ordered flags to be flown at half-mast and proclaimed two days of mourning. Soccer fans observed the nation's silence before yesterday's league football games.

By the time Pertini's presidency expired in 1985, he had become close friends with the Pope, meeting him on 11 mostly informal occasions - the highest number of encounters between a Pope and an Italian head of state.

In a message of condolence, the Pope spoke of his warm friendship with Pertini, who he called a man "dedicated to freedom and democracy".

Pöhl warning on monetary union

By David Marsh in Bonn

Mr Karl Otto Pöhl, the president of the West German Bundesbank, has delivered a stiff warning to the Bonn Government about the feasibility of accelerated monetary union with East Germany.

"We must do everything to bring the process to a conclusion as quickly as possible," Mr Pöhl says in an interview with the news magazine Der Spiegel today. "But it would be an illusion to reckon with it in just a few weeks."

In his most outspoken comments to date on Chancellor Helmut Kohl's offer to introduce the D-Mark into East Germany, Mr Pöhl points to the possibility of tax increases in West Germany to finance part of the "enormous transfer payments" needed to accompany reunification.

He says the longer term benefits of unification are likely to be "far higher than the costs." But Mr Pöhl also stresses the risks of a big increase in East German unemployment, as well as further emigration, as a result of the economic "shock therapy" under discussion.

Underlining increased pessimism in East Germany over the economic outlook, the Bonn Interior Ministry said over the weekend that just under 100,000 East Germans have entered the Federal Republic since the start of the year - an exodus causing growing problems in both German states.

Mr Pöhl's remarks are likely to fuel controversy about the effects of monetary union in the highly charged atmosphere ahead of East Germany's first democratic elections on March 18.

The Bundesbank president's bluntness will also add to strains in his relationship with Mr Kohl. Mr Pöhl termed as "unusual" and "annoying" Mr Kohl's failure to inform him of his offer just under three weeks ago of "immediate" monetary union talks. The offer, put forward on February 6, completely wrong-footed Mr Pöhl, who was himself holding talks in East Berlin the same day with the East German Economics Minister and the central bank president.

The day before Mr Kohl's announcement, Mr Pöhl said he held a long discussion with both the Chancellor and Mr Theo Waigel, the Finance Minister. "In these talks I was not told one word that such a suggestion should be put forward," he says.

Mr Pöhl emphasises that the question of monetary union is a "political decision" which in the last resort has to be settled by the German parliament. But he points out: "I cannot imagine that the Government would conclude an agreement which the central council of the Bundesbank could not agree to."

Mr Pöhl extends his previous warnings about the danger of introducing too high an exchange rate for the East Mark against the D-Mark.

Although he refused to spell out what he thought should be the correct rate, he confirmed the Bundesbank's misgivings about a 1 to 1 conversion rate, which has been suggested by some officials in Bonn to protect East German savings.

"A wrong conversion rate would have wide-ranging consequences for the competitiveness of East Germany," Mr Pöhl says.

The issue of German reunification and its likely economic impact dominated talks between Mr Nicholas Brady, US Treasury Secretary, and Italian government leaders at the weekend, John Wyles adds from Rome.

According to Italian spokesmen, the theme will be taken up at a meeting of Finance Ministers from the G7 group of leading industrialised countries which is likely to be held in Europe after Easter.

Mr Guido Carli, the Italian Treasury Minister, said after his session with Mr Brady that they had agreed that efforts would be needed to avoid "an upward push in interest rates that might slow economic development."

The recent rise in West German bond yields in anticipation that German monetary union will trigger much greater credit demands was seen by both Ministers as a threat to international interest rate stability.

Hurd faces Gibraltar pressure

By Peter Bruce in Madrid

MR Douglas Hurd, UK Foreign Secretary, is likely to be pressed hard to find ways to stop the large-scale smuggling of tobacco and, more recently, drugs, from Gibraltar into Spain, when he arrives in Madrid today for talks on the British colony's future.

Mr Francisco Fernández Ordóñez, the Spanish Foreign Minister, has set a combative tone for the annual round of talks by complaining loudly about Gibraltarian smuggling and money-laundering.

Articles have also appeared in the local press warning that Spain might be forced to build an airport nearby if the Gibraltarian Government continues to refuse to implement the UK-Spanish agreement of 1987 on joint use of Gibraltar airport.

Spanish irritation with Britain's inability to push the colonial authorities into accepting joint use of the airport is taken for granted now. But diplomats in Madrid have been surprised at the angry tone Mr Fernández Ordóñez has used recently to attack Gibraltar.

In part, this stems from an incident last year when two Spanish policemen were arrested in Gibraltar, having chased some Gibraltarian smugglers from Spanish waters. The suspects were not arrested and, when the Spanish policemen were due to return to the colony for trial, Madrid refused to let them.

Britain is obliged to let the Gibraltarians decide for themselves on whether to abide by the airport agreement, but Mr Joe Bossano, Gibraltarian Prime Minister, has sworn never to do so, and the impasse remains what may well be the only difficulty in UK-Spanish relations.

For the first time, the British colonial governor is expected to attend the talks today, as part of an attempt to increase pressure on, and isolate, Mr Bossano.

Even Madrid accepts that implementation of the airport accord will be a direct challenge to Madrid, if not to London.

● The Spanish economy is expected to grow by 4 per cent this year, with the public sector deficit falling to 1.8 per cent of GDP, according to the draft 1990 budget approved by the cabinet at the weekend.

Mr Carlos Solchaga, Finance Minister, said the budget involved a 10.3 per cent increase in total outlays and a 10.7 per cent increase in income. He described it as "moderately restrictive", in line with Government efforts to cool the economy. Spending last year was budgeted to grow 13.5 per cent.

The minister said the Government was standing by its inflation forecast of 5.7 per cent this year - more than one percentage point point down on that of 1989. He insisted that a recent series of agreements on wages and salaries with the country's main trade unions - the price of political peace for the much-criticised minister - in no way endangered budgetary discipline.

But the Government, which won a parliamentary majority of one seat last October in a general election, is planning a 13.6 per cent rise in social security contributions to social security, after increases of just over 10 per cent in 1988 and last year.

Bulgaria crowd clamours for speedier reform

MORE than 80,000 Bulgarians yesterday staged their country's biggest anti-communist protest since President Todor Zhivkov was ousted in November. Reuters reports from Sofia.

The crowd, which packed a square near Communist Party HQ in Sofia, waved banners saying "Enough nightmares" and "Liberty, Freedom, Justice".

Leaders of the opposition Union of Democratic Forces (UDF), which had organised the rally, were cheered as they urged an end to Communist rule. Bulgaria's new Communist leaders have renounced automatic right to rule and begun talks with opposition groups. But the UDF says the party is lagging on economic reform and delaying changes needed to give the opposition a fair chance in elections due in late-May.

● Peter Riddell adds from Washington: Bulgaria has formally applied to join the International Monetary Fund and the World Bank. The Bulgarian application to the IMF, a necessary preliminary to membership of the World Bank, will be

followed by a visit to Sofia in April or May by an IMF mission, to discuss Bulgaria's economy and the size of its subscription or membership quota.

This year, Czechoslovakia applied to revive lapsed membership. An IMF mission will visit Prague a week hence. The US and other leading shareholders have supported Prague's application.

Poland, Hungary, Romania and Yugoslavia are already members of the IMF and World Bank. Poland recently signed large standby and loan pacts with both bodies, while Mr Ferenc Bartine, president of Hungary's National Bank, was in Washington last week to agree a \$200m stand-by arrangement with the IMF. This is preliminary to an international bridging loan and larger IMF medium-term adjustment assistance, on which talks will start this year, as well as \$550m-\$650m in World Bank finance.

The IMF recently sent a mission to Bucharest for talks with the new Romanian Government.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT				
	Jan '89	Dec '89	Oct '89	Jan '88
W. Germany 000's	1,973	1,998	2,022	2,097
%	7.7	7.8	7.9	8.1
USA 000's	6,636	6,656	6,652	6,625
%	5.4	5.3	5.3	5.4
UK 000's	1,687	1,699	1,812	2,074
%	6.0	5.8	5.7	7.4
Belgium 000's	362	362	347	390
%	10.0	9.9	9.9	10.5
	Dec '89	Nov '89	Oct '89	Dec '88
Japan 000's	1,330	1,410	1,430	1,460
%	2.1	2.2	2.30	2.3
France 000's	2,596	2,576	2,569	2,429
%	8.8	8.8	8.8	10.5
Italy 000's	3,329	3,911	3,888	3,567
%	10.9	11.0	10.9	10.6
	Nov '89	Oct '89	Sept '89	Nov '88
Netherlands 000's	385	376	381	412.0
%	9.1	9.2	9.3	10.3

Source: (except UK, US, Japan) Economic



Mr Willy Brandt, former West German Chancellor, yesterday addressed 100,000 East Germans from an opera house balcony at Leipzig. He urged them to work for German unity at home, instead of emigrating west.

Mr Brandt - now honorary chairman of both the West and East German Social Democratic

parties - is pictured with Mr Ibrahim Böhme, chairman of the East German SPD, (right) during the latter's first party meeting at Leipzig over the weekend. "German unity cannot mean that we all rededicate ourselves in the West. Stay here and work for improvements. Don't empty your country," Mr Brandt said, in an emotional appeal to the crowd.

Modrow to run for premiership at head of E German party

By Leslie Collin in Berlin

EAST Germany's Interim Prime Minister, Mr Hans Modrow, took the country by surprise yesterday by saying he would lead the reformed Communist Party in elections next month after all.

He disclosed his candidacy to a jubilant party congress in East Berlin, which approved a change of name from Socialist Unity Party to the Party of Democratic Socialism (PDS).

Despite the party's widespread unpopularity, the 62-year-old leader has gained much respect among East Germans for his sense of duty. It remains to be seen whether he can save the PDS from a crushing defeat at the polls.

Mr Modrow, looking drawn after a dramatic speech to his party's congress, drew the 530

delegates to their feet when he said he would stand to keep the premiership on March 18, largely because of the many younger party members who wanted to renew socialism and the party.

Mr Modrow's main opposition rival, Mr Ibrahim Böhme, who is the favourite to succeed as premier, was confirmed over the weekend as East German Social Democratic Party chairman at the party's first congress at Leipzig.

The East German Social Democrats yesterday presented about the award of a construction contract in Denmark, is encouraging. Denmark was challenged by the Commission, and Bouygues at least got its bidding costs back.

A new German constitution, to be approved by a referendum in both Germanys.

In a speech to the SPD delegates, Mr Hans-Jochen Vogel, West German SPD chairman, hit out at West German Chancellor Helmut Kohl by warning against a "chaotic incorporation" of East Germany by West Germany, and advocated an orderly growing together. He accused the Christian Democrats in Bonn of carrying out an "infamous slander campaign" against both SPDs.

The first election rally held by an alliance under New Democrats, the East German opposition movement which spearheaded the overthrow of the previous communist leaders, was attended by only 1,500 supporters at Schwerin.

Brussels attempts to stamp out nationalistic buying

Lucy Kellaway reports on the EC Commission's drive to open up the public procurement market

FOR some 20 years the European Commission has been trying to correct the blatantly nationalistic habits of big public and monopoly buyers. They spend 15 to 30 per cent of Community goods national product and all but 2 or 3 per cent of that goes straight into the hands of their own national companies.

Last week its efforts took a leap forward with the approval of a directive that should open up buying in four of the most important sectors - water, telecommunications, transport and energy.

This directive is at the centre of the campaign to break open the public procurement market. These so-called "excluded sectors" which account for over half the total, have been left out of previous public procurement measures on the grounds that many of the buyers were private companies and outside the Commission's usual sway.

There is a lot to be gained from opening up procurement. One Commission report put the cost of biased purchasing at Ecu2.5bn (£1.4bn) a year or 0.6 per cent of Community GNP.

Even if only a tenth of that could be recovered, it would still be worth having. In both macro-economic and industrial terms it is one of the most important aspects of the single market: get rid of nationalistic buying, and you also get rid of an important reason for frag-

mented and uncompetitive industries. It is of symbolic importance too; if the big purchasers go on buying national, the credibility of the whole 1992 programme will look shaky. To get there, the Commission has issued directives dating from the 1970s covering the purchasing of public works and supplies have recently been strengthened. The amount of information that bidders must give has been greatly increased, as has the period of notice. New enforcement measures are also being introduced. And after the excluded sectors, the final step is to bring services (such as consultancy) within the net.

The exclusion sectors directive is radical. It no longer distinguishes between public and private, but between those purchasing companies that are competitive, and those that are either monopolies or under any kind of government influence. "The debate is not about public procurement any more," says a Commission expert. "It is about breaking the long-standing incestuous relationships between national monopolies and their client suppliers."

This shift initially drew a howl of protest from industry. Companies argued that the proposed thresholds - above which the rules will apply - were too low, the process of bidding too cumbersome, and the scope too broad. The result, they said, would simply be higher costs and lower profits. As a consequence, various



changes have been made. The thresholds have been lifted somewhat (although many companies still feel that Ecu400,000 for most supplies, and too low) and the bidding process has been greatly simplified.

Important exceptions have been made in some areas, and the Community's poorer companies have been given a three-to-four-year breathing space in which to comply. In the energy sector, purchases by utilities of gas and electricity have been excluded altogether, mainly because any talk of opening up the energy market meets inevitable resistance from some member states. For the time being, at least, that tough nut has been left to energy ministers to crack.

The demands of the UK Government and the oil industry have also been heard, so that equipment for coal, oil or gas exploration is outside the rules. The oil industry had argued strongly that it was competitive anyway and did not need such cumbersome

constraints. Others pointed out that almost 90 per cent of UK North Sea orders were won by British companies; they claimed that the industry looked after by an overly protectionist Offshore Supplies Office, and that the Government was inclined to reward or punish oil companies through the award of exploration licences.

The compromise solution is to make the exemption conditional: any sign of bias in the granting of either licences or contracts and the Commission will reconsider the matter. Despite such exceptions the directive's scope is broad. Most pleas for special treatment were ignored. France vainly attempted to get water supplies left out.

The next task is to decide how the new measures should be enforced. Later this spring the Commission will put forward a directive on compliance.

This is proving a legal minefield, because the current legal conditions that can be imposed on a public company cannot be imposed on a private one. Member states have long made it clear that any system that would allow the Commission to suspend contracts when it suspects wrong-doing is unacceptable. Other safeguards are being considered, such as regular independent audits of private companies, with the results made public.

To cope with the enforce-

ment problem the Commission's procurement team has grown tenfold in the past two years. Although about 40 people it is still doubtful whether it can manage the task ahead even if it uses outside services where possible.

More important, though, will be whether companies themselves are prepared to blow the whistle on buyers which have wronged them - something they may not want to do for fear of losing future business. However, the example of Bouygues, the French construction company which complained about the award of a construction contract in Denmark, is encouraging. Denmark was challenged by the Commission, and Bouygues at least got its bidding costs back.

British industry, the Commission is trying hard to get some cross-border talking going. At a recent conference in Brussels for European Policy Studies, four conditions were suggested for the success of the Commission's efforts. The directives must be effective; purchasers must be prepared to change their behaviour; lower prices must actually lead to greater efficiency; and the benefits must go to EC companies rather than to third countries.

This last condition has proved the trickiest part of the deal on excluded sectors. Some member states argued it was provocative protectionism to introduce any new barriers around Europe at a time when the General Agreement on Tariffs and Trade is trying to get rid of them. Others felt Europe should match the kind of barriers that exist in the US or Japan, giving European companies a big price preference.

The debate was largely tactical: the issue will be decided by Gatt at the end of this year, two years before the directive comes into force. In the end, however, member states agreed that EC companies would be given a small price advantage of 3 per cent. The Commission, at any rate, seems pleased with the outcome, which is more or less exactly what it wanted in the first place.

Greeks fail to elect head of state

THE Greek Parliament yesterday failed to elect a head of state in its second round of voting after the conservative New Democracy party abstained from the poll call, AP reports from Athens.

The action made it impossible for either of the two candidates - incumbent President Christos Sartzetakis and former Parliament Speaker Yannis Alevras - to receive the necessary number of votes.

New Democracy, Greece's largest political group, also abstained in the first round of voting last Monday and has said it will abstain again in the third.

A candidate for a five-year term in the largely ceremonial post of president must win at least 200 votes in the first two rounds of balloting in the 300-member unicameral Parliament. The conservatives held 148 seats, the socialists 126 and the Communists 21. Three seats belong to Independents.

Mr Alevras, backed by the socialists, received 127 votes. Mr Sartzetakis received 21 votes from the Communist alliance. Four deputies were absent from the chamber.

In the first round of voting, Mr Sartzetakis, who ran unopposed, received 151 votes. Tsaldaris said the third round will be held on Saturday March 3. Parties may propose a different candidate in each round.

Greeks fail
to elect
head of state

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UK NEWS

CBI points to continued growth in British exports

By Peter Norman, Economics Correspondent

FOREIGN DEMAND for British manufactured goods continues to grow, providing one bright spot in an otherwise gloomy picture of weak orders and stagnant production, a new survey of UK industry shows today.

The Confederation of British Industry reported that its industrial trends inquiry for February found, by a narrow margin, that manufacturers were reporting export orders above normal for the first time since September 1988. At the same time, however, overall demand had weakened significantly from a year ago. The survey, which polled 1,408 companies in the first three weeks of this month, suggested that production "will increase hardly at all over the next four months," in marked contrast with the early part of last year when CBI surveys pointed to strong growth in output in the months ahead.

The CBI's survey covered companies responsible for roughly half the exports and employment in UK manufacturing industry.

It gave strong support to the latest forecast of the British economy from the London Business School.

The LBS forecast sees a strong rise in manufacturing

exports this year while the economy goes through a "growth recession."

British gross domestic product will rise by only 1 per cent this year after 2.3 per cent in 1988, the LBS said. However, growth will recover to 2.6 per cent next year as current tight policies are eased in the run up to the next general election in 1992.

The LBS warned that the main recessionary element in the economy is likely to be company spending, with investment flat and destocking significant. These fears are borne out by the CBI survey.

The CBI said that the continued weakness of order books is preventing companies from raising prices.

On balance, fewer manufacturers said they were planning to raise their factory gate prices over the next four months than in any February since 1986.

Although stocks of finished goods were considered "more than adequate," the latest CBI survey also contained evidence of destocking.

Mr David Wiggleworth, the chairman of the CBI's economic situation committee, said the falling number of companies expecting to raise prices was good news for the con-

sumer and the fight against inflation. But he warned:

"With demand weakening, profits are also being squeezed and less money is being earned for investment, which is bad news for the future competitiveness of British industry."

He repeated the CBI's call for "some inducement in next month's Budget" to encourage manufacturers to maintain investment growth.

The CBI survey found total order books weakened slightly in February with 85 per cent of companies saying they were below normal against 18 per cent reporting above normal orders.

The balance, which measures the trend, was minus 17 per cent this month against minus 16 per cent in January and plus 2 per cent in February last year.

Overseas demand strengthened slightly, however, with 22 per cent of firms reporting above normal export orders and 21 per cent orders below normal.

The positive 1 per cent balance contrasted with a zero balance in January and negative monthly balances of between minus 4 and minus 14 per cent last year.

London Business School forecast, Page 18

TUC keen to resume talks on health workers' pay

By Our Labour Staff

AS THE dust settled after marathon negotiations in the ambulance dispute, the Trades Union Congress yesterday said it was keen to resume talks with the Government on long-term pay arrangements for all National Health Service workers.

The TUC health services committee has had periodic meetings since the early 1980s with health ministers on the issues of public expenditure, pay determination and arbitration in the NHS.

The discussions were put on the back-burner at the beginning of the six-month ambulance dispute. But there was now no reason not to resume them, said the TUC, some of the issues raised during the dispute applied to all NHS staff. The TUC would like to see, in particular, an agreed system of consultation.

Meanwhile, ambulance workers on Merseyside opposed to the nationally-negotiated deal were confident that an all-out strike planned to start today would be solid.

Balloting arrangements throughout the country are due to begin today. Each of the five unions will be conducting its own ballot.

Pearson negotiating for theme park

By Richard Donkin

PEARSON, the UK conglomerate which publishes the Financial Times, is negotiating to buy Alton Towers, the Staffordshire theme park owned by Mr John Broome, for about £50m.

The deal, which is due to be announced in about three weeks time, will allow Mr Broome to clear most of the debts on his beleaguered Battersea Power Station leisure development, in London, leaving him in sole control of the site with debts, according to one estimate, of between £10m and £15m.

The sale is thought to have been encouraged by his backers on the Battersea project, a

banking syndicate headed by Security Pacific National Bank, which has already ploughed about \$50m into the scheme to convert the power station into a pleasure dome.

The syndicate of four banks - Security Pacific, Long Term Credit Bank of Japan, Bank of Nova Scotia, and Tokai, another Japanese bank - is in a powerful position to influence the deal since the banks have charges over the Alton Group which has cross guarantees on the Battersea project.

Work on the art deco power station, listed for its historical interest, was halted by the banks 11 months ago and the building has since been left as

an empty roofless shell. The syndicate became nervous when site costs escalated and Mr Broome failed to attract a further £40m in equity that the syndicate had insisted upon to continue with the project.

Mr David Cooper, a lawyer representing Battersea Leisure, said the original plan for the power station had now been scrapped.

A far more extensive scheme, which retains the theme park concept for the power station, has been submitted to Wandsworth Council. Mr Cooper said new plans covered a 50-acre site encompassing British Rail's south London goods yard and Batter-

sea Wharf owned by Parc Securities, part of Mr Werner Rey's Swiss-based Omni Holding empire. Mr Cooper said no firm agreement existed between the three parties.

Any deal drawing in the enlarged site... hinges on the granting of planning permission.

Pearson wants Alton Towers to add to its leisure interests within the Madame Tussaud group. Mr Frank Barlow, managing director and chief operating officer of Pearson confirmed yesterday that negotiations were being carried out to buy Alton Towers. He refused to comment further or to confirm the price.

Pressure to end BAe strike intensifies

By Diane Summers, Labour Staff

PRESSURE to end the 17-week British Aerospace strike is expected to intensify this week in the run-up to a board meeting of the European Airbus consortium.

Talks are likely to resume between unions and management at the Chester plant where most of the Airbus production is based. The strike at Chester threatens to bring assembly of Airbus aircraft at Toulouse, south-west France, to a standstill. At the end of last week the company said

that it had received no communication from unions since talks were adjourned on Wednesday.

However, Mr Bill Jordan, president of the AEU engineering union, said that local union negotiators had made "constructive amendments" to existing proposals and the ball was now back in BAe's court.

Workers at Preston, Chester and Kingston-upon-Thames are striking as part of a national campaign, by engineering unions for a 37-hour working

week. Some of the sticking points at Chester were "problems of presentation," Mr Jordan said. One example was the wording on "the company's need to use contractors in the short term. There also continued to be a problem about a small number of white-collar workers for whom an honourable and satisfactory settlement had to be found," Mr Jordan added.

The Airbus supervisory body is due to meet on Friday when the BAe strike is expected to

top the agenda. Aerospace - the French state-owned aerospace group which has a 37.9 per cent stake in the Airbus programme - will raise the issue of penalising BAe for the strike.

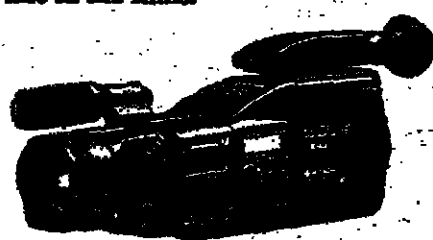
An article in the Airbus statutes could make BAe liable for 40 per cent of the \$300m the strike has already cost the European consortium. BAe has so far claimed that the article did not apply because the strike was a case of *force majeure*.

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Teachers to be balloted over pay and workloads

By Diane Summers, Labour Staff

MEMBERS of the UK's second-biggest teaching union will be balloted this week on proposals for a one-day strike over pay and workloads. Any action would be the first by teachers in three years.

The ballot follows a special salaries conference held at the weekend by the 118,000-strong National Association of Schoolmasters and Union of Women Teachers. About 800 delegates voted for the ballot.

Mr Fred Smithies, General Secretary, said the action was to "put down a marker warning the Government that teachers have had enough."

The union also wanted to "focus public attention" on the serious problems faced by the education system," he said.

According to the union, this was the second year in succession that teachers in the classroom would end up with a pay cut: they would receive only 7.8 per cent across the year, while the increase in the cost of living had been running beyond 7.7 per cent.

Teachers were awarded an 8.5 per cent rise by an interim advisory committee which reported earlier this month but it is to be implemented in two stages: the first on April 1 and the second on January 1 next year.

The National Union of Teachers, the largest teaching union, is unlikely to join any strike action.

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UK NEWS

Blue Arrow shareholders find a shining knight

Eric Short looks at the career of the soft-spoken Scot who has led negotiations on behalf of investors

THE BLUE Arrow affair has left many in the City with tarnished images. One man who has not suffered, however, is Mr Donald Brydon, outgoing chairman of the investment committee of the National Association of Pension Funds. His reputation acquired an extra gloss last week.

Mr Brydon has been the leader of a team drawn from institutional shareholders negotiating with County NatWest and IBS Phillips & Drew, the investment banks which acted as underwriters to the Blue Arrow rights issue.

For Mr Brydon the Blue Arrow negotiations represent a climax to two eventful years as chairman of a body which now manages assets of more than £250m.

His is a powerful voice in the City although it has hitherto been muted.

Mr Brydon, 44, is a soft-spoken Scot with a build that reflects his rugby-playing days. He is managing director of BZW Asset Management, part of the investment banking arm of Barclays Bank group where he is responsible for dealing with a wide range of clients and handling life and unit trusts as well as pension funds.

He was the first chairman of the investment committee in many years to come from an investment house. His experi-

ence at BZW may have given him a wider-ranging vision and deeper experience in dealing with people than would normally be acquired by an in-house pension fund investment manager - the usual background for chairmen of the NAFF investment committee.

Negotiation for compensation over the Blue Arrow issue started within days of the arrest of those at the centre of the affair.

The investment committee was receiving inquiries from members affected by the débâcle who asked what was to be done. Mr Brydon's decision to take immediate action was characteristic of a man who, on his own admission, is a hands-on manager who believes in getting things done and dislikes waiting for others to take action.

His attitude was that "it takes time for the formal processes to achieve results. One can achieve better results quicker by using informal processes."

The NAFF is powerful enough to act on its own. Yet one of Mr Brydon's early achievements in his chairmanship was the resurrection of the Institutional Shareholders' Committee - a move he made in conjunction with Mr Colin Parker who was then chairman of the investment protection

committee of the Association of British Insurers.

The primary purpose of the committee was to act as a forum for communication between corporate management and institutional investors. In Mr Brydon's words, "it was to show government that institutional investors not only accepted responsibility as shareholders but were prepared to do something about it."

The committee had already flexed its muscles over management buy-outs, issuing a statement of practice on MBOs reflecting the collective attitude of all institutional investors.

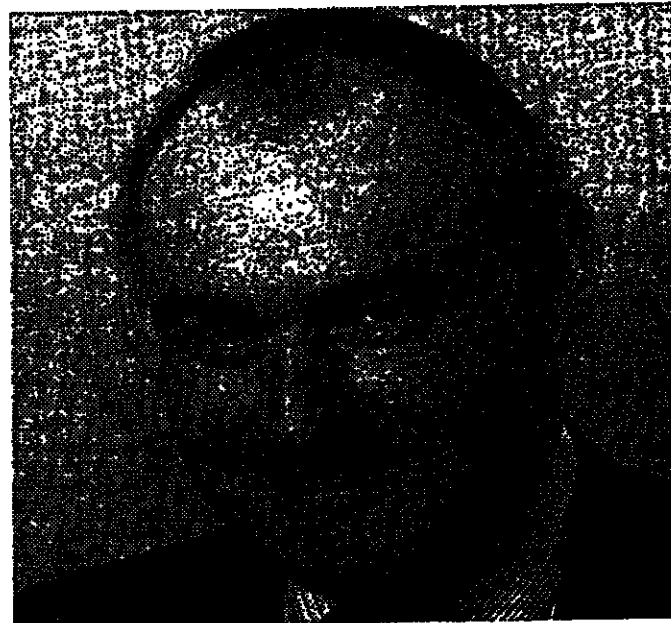
"Expressing a consensus view on the subject will give that view much more force," explains Mr Brydon. The statement proved that the committee was a convenient mechanism through which to express such views.

However, the Blue Arrow affair gave the committee a chance to show what it could do collectively.

Any agreement reached in the negotiations - and Mr Brydon stresses that these are by no means concluded - will apply to individual shareholders who deal on the market as well as to institutional shareholders affected by Blue Arrow.

said: "There is no mechanism at present for small shareholders to seek redress effectively," he said.

Like many others, he feels that the complaints mechanism laid down within the financial services framework has yet to prove itself, and even if it does so it is likely to act slowly.



Donald Brydon: responsibilities of institutional shareholders

affair is an opportunity for the ISC to show that it can act on behalf of small investors as well as for large institutions, although he admits that in the present negotiations the ISC can only exert commercial pressure.

He says this is far more likely to produce satisfactory results than the legal and regu-

latory systems. Mr Brydon says going to the courts should be only a last resort.

Mr Brydon's chairmanship of the NAFF investment committee has ended and that of the ISC is due to end in June. He was asked to stay on as head of the negotiating team until the final deal was concluded. He needed no persuasion.

He says that neither he nor the NAFF investment committee intend to get involved in every problem that arises provided an adequate solution is already available.

He quotes the Ferranti affair when members bombarded the investment committee with inquiries about what was being done. When the NAFF found that matters were already in hand, it stood by and kept itself informed. Mr Brydon saw no reason to interfere simply because the NAFF was involved.

Whatever the outcome of Blue Arrow, Mr Brydon believes the crowning success of his chairmanship was the production of the book *Creative Tension?* reviewed last Thursday in the Financial Times. His book, he says, "will be around long after the Blue Arrow affair has been forgotten."

The book represents the expression of all Mr Brydon's attitudes on collective shareholder responsibility.

Parkinson seeks Patten accord on traffic increase

By Ralph Atkins

MR CECIL Parkinson, Transport Secretary, yesterday backed a "practical" approach to tackling the environmental consequences of increasing road traffic, arguing that individuals should be able to choose their preferred method of travel.

He confirmed that a Cabinet committee was considering proposals for making car travel more expensive, but said that such a move would be "very unpopular."

His comments on BBC Television's *On the Record* programme appeared to put Mr Parkinson at odds with Mr Chris Patten, the Environment Secretary, who foresees an active and interventionist stance on the environment by the Government.

Mr Parkinson implicitly admitted that disagreement existed about likely traffic levels in the 2020s. He said they had been put at 80 per cent to 142 per cent higher than now.

"I hope that he [Mr Patten] and I can agree on a set of figures around which we can both base our common policies and that is what we are working towards."

He added that his aim was to create a "range of options for people when they come to make their travel arrangements." The road programme

was not the only contributor - rail was also important. But he said: "The public don't need directing. I'm creating a range of options so that an adult British public can exercise the option in a way that suits it, taking into account the economics and the environment."

The Government was investing "huge sums" in Britain's public transport system, Mr Parkinson said. But it would be wrong either to expect that a large-scale shift towards rail was possible or to exaggerate the environmental gains.

"If we doubled the use of the railway we would reduce carbon dioxide emissions by 3 per cent," he said.

Mr Parkinson said investment in British Rail would increase in real terms over the next three years to "a figure which the chairman of British Rail described as 'as much as we can practically manage'."

But he emphasised that car traffic was not going to stop growing. The UK had fewer cars per thousand people than "virtually any other major country in Europe" and the level would rise as economic prosperity increased.

He added that the Government wanted to get first-class efficiency back at the heart of manufacturing priority lists.

Decision next month about Severn bridge

By Andrew Taylor, Construction Correspondent

MR Cecil Parkinson, Transport Secretary, must shortly make a decision on whether to use public or private money to finance the building of a £600m-£650m second bridge across the Severn estuary.

He must also choose which of two consortia will build the crossing at English Stone, three miles downstream from the first Severn Bridge. One of the consortia contains a leading French construction company. The first bridge, built 23 years ago, has insufficient capacity to carry all the traffic generated by the much-improved economy of South Wales.

On the shortlist are John Laing, the British construction group, together with GTM Entrepote of France; and Trafalgar House, the British construction, property shipping and hotels group, with Balfour Beatty, the construction arm of BICC, the British engineering group.

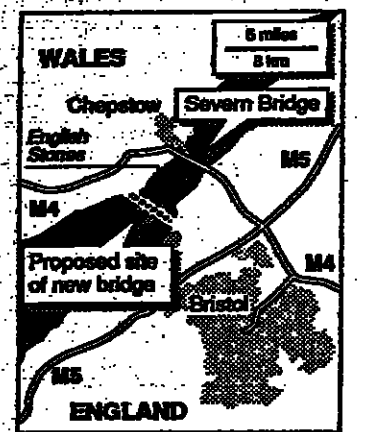
Mr Parkinson favours a private-sector solution, but he must first convince the Treasury, which inclines towards public investment in these matters. It feels that taxpayers' money is cheaper than that raised from banks and shareholders who expect interest payments and dividends.

The Treasury has been defeated on that argument before - most notably at Dartford where Trafalgar House is building a privately-financed toll bridge across the Thames.

Treasury officials, however, insist that private-sector schemes should provide value for money at least as good as public-sector schemes. It compares the worth of privately-financed projects by calculating the net present value of the scheme to the promoter - based on a complicated formula involving proposed toll rates, traffic forecasts and the life of the concession.

As far as the Treasury is concerned, the lower the net present value to the promoter, the better value for money for the country. That, however, could increase tolls, particularly during the early years of operations when the burden of private debt would be at its greatest.

Toll rates for crossing the Severn are likely to be very sensitive politically, particularly for a Government which faces a potentially difficult general election and which is



anxious to attract voters outside its traditional southern heartland.

The existing Severn bridge is viewed by Welsh businesses as an economic lifeline to the rest of the kingdom. It is also viewed as such by companies, particularly from Japan, which have been persuaded to establish operations in South Wales.

The temptation to choose the lowest-cost option could store up other problems if the project runs by the first and required refinancing.

That has already happened with the privately-financed Channel tunnel.

The site chosen for the new Severn crossing is much wider than for the original bridge and construction will take place in fast-flowing water. It will be difficult to engineer and that will increase the risk of cost overrun.

One of the consortia bidding for the building contract says the bridge will need about 40 piers sunk into the river bed, compared with just two piers for the existing bridge.

The difficulty of the choice facing transport officials is reflected by the fact that the two groups on the shortlist have each proposed several options depending upon which direction the government takes.

A private toll bridge would involve the successful bidder taking over the existing toll bridge and the debts of £120m. The likely life of a concession to a private promoter is expected to be 20 to 35 years.

The Laing consortium may be the winner, as its bid is understood to be £40m to £50m lower than that from the Trafalgar House group. But the decision, expected early next month, will not rest on cost alone.

Training level of travel managers is questioned

By David Churchill, Leisure Industries Correspondent

MORE than three quarters of all corporate travel managers in the UK have had no formal training in travel planning, according to a survey published by airline guide ABC World Airways.

The survey supports previous findings which point to the low status attributed to travel management by many British companies.

"Three out of four travel managers we spoke to recognised that such training would be useful, enabling them to save their companies time and money," said Mr Jeremy Griffiths, publishing director for the ABC guide.

It is quite astounding that

people whose role is to handle up to £1m worth of corporate travel arrangements for their companies have had no formal guidance on how best to manage business travel for their executives.

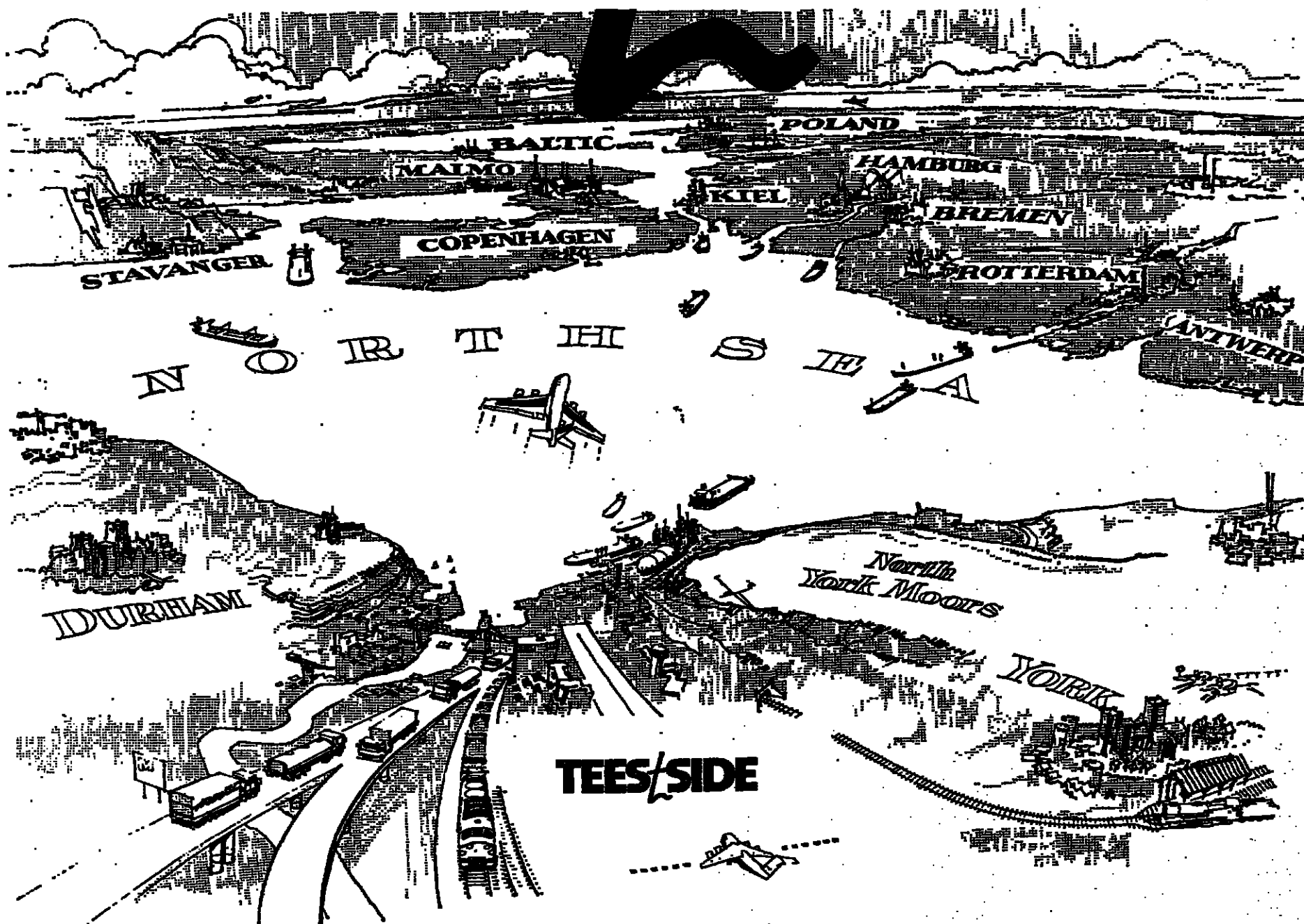
An American Express survey published last year found, for example, that many companies gave executives cash advances to pay for travel and entertainment.

Some companies had up to £500,000 at any one time tied up in that way.

The American Express survey found that relatively few middle and junior managers had corporate charge cards.

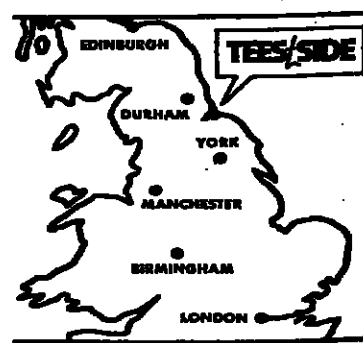
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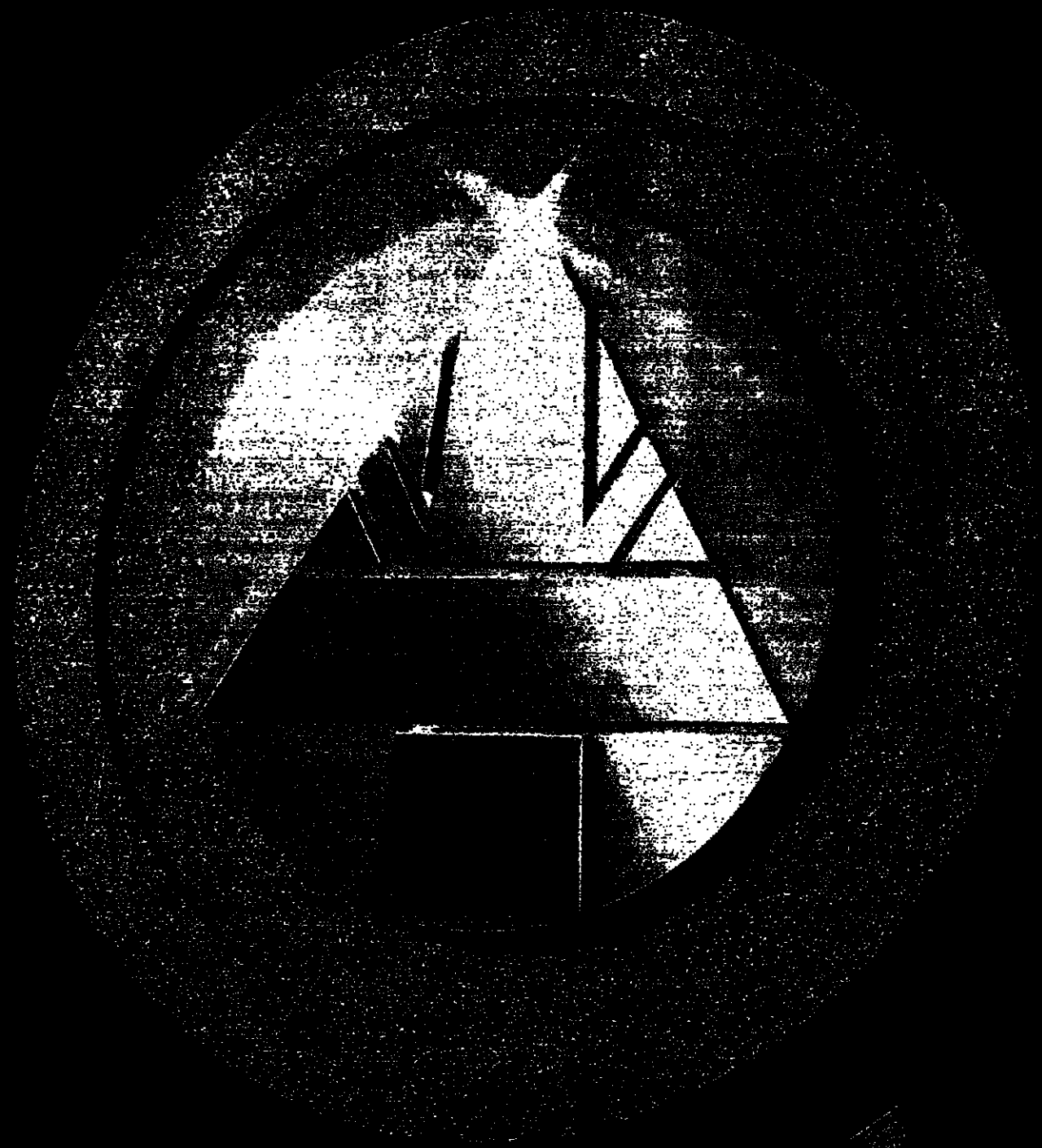


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UK NEWS



Sir Colin Marshall: optimistic for the future

BA begins drive to reverse decline in European network

By Paul Betts, Aerospace Correspondent

BRITISH AIRWAYS has launched a three-year plan to improve the deteriorating financial performance of its European operations.

These account for 40 per cent of BA's annual turnover, but contributed only 15.5m, or less than 5 per cent, of the company's operating surplus in 1988-89. That compared with 52.1m, or 27 per cent, in 1985.

BA will try to restore the European network's profitability by developing a new "hub" in Brussels through its stake in the new Sabena World Airlines, and also by improving punctuality, in-flight and ground services, and

by expanding East European services. Mr Liam Strong, BA head of marketing and operations, said the decline in the European network had been caused by the high costs of providing increased capacity and flight frequencies. Capacity increases of 44 per cent during the last five years have outstripped traffic growth of 29 per cent.

Moreover, BA's margins had been squeezed because of the impact of increased competition on several high-density routes, with subsequent inadequate fare increases. Mr Strong said BA has invested 52.4m in a 20 per cent stake in Sabena, the Belgian air-

line, in which KLM Royal Dutch Airlines has also acquired 20 per cent. BA expects to show a small loss from the venture in the first year, changing to a positive result in the second year.

The Sabena partners intend to launch a "hub and spoke" operation in the summer of 1991, feeding their short-haul European services into long distance routes operated out of Brussels.

The Belgian airport will also be connected to Manchester and Birmingham to feed traffic into BA's long-distance services out of these regional hubs. Sir Colin Marshall, BA

chief executive, said the European destinations served by the new Sabena would increase from 45 to 75 destinations over the next four to five years.

To take advantage of opportunities in Eastern Europe, BA is already boosting capacity on routes to Prague by 36 per cent, to Budapest by 26 per cent, and to Warsaw by 17 per cent.

Among other moves to improve the performance of its European operations, BA is planning to focus on selling tickets in countries on the Continent where the yields are greater than those of the UK, as well as

launching programmes to gain a larger share of lower fare leisure travel. Mr Strong said there were opportunities to improve BA's European in-flight services by providing more foreign newspapers and multilingual cabin crews.

Among planned improvements in ground services was a new lounge for business class passengers at Heathrow's Terminal 1 in April. BA is also planning to experiment with valet parking for customers at Terminal 1.

Rationalisation of the short-haul fleet is also expected to benefit overall performance in Europe.

Labour opens fresh attack on Government

By Ralph Atkins

LABOUR yesterday launched a fresh attack on the Government's handling of the economy as opinion polls gave it a commanding lead over the Conservatives.

A series of statements and speeches by senior opposition spokesmen sought to exploit Government embarrassment about the unpopularity of high interest rates and the poll tax.

The onslaught is likely to be renewed on Wednesday when trade figures are expected to show a current account deficit of more than £1bn in January.

Mr Kenneth Baker, Conservative party chairman, said the results of two opinion polls were "disappointing." The Sunday Times/Mori survey gave Labour a 17 percentage point lead over the Tories. An Observer/Harris poll put it 12 points ahead.

Speaking on BBC Radio, Mr Baker said the Government was suffering because of the consequences of anti-inflation strategy. "If we were to change course now on our economic policy and do things that might be considered popular, then that would be very bad for the country in 1991 and 1992."

He added: "We have never run away from our problems as a Government."

But Mr Gordon Brown, Labour's trade spokesman, cited an interview with the Prime Minister in The Sunday Times as evidence of the economic "incompetence" of the Conservatives.

He claimed that in saying her ambition was to "catch up with France," Mrs Thatcher had admitted that economically Britain lagged behind the French and was far behind the West Germans.

Scottish Labour Party executive votes for PR

By James Buxton, Scottish Correspondent

THE EXECUTIVE of the Labour Party in Scotland voted yesterday in favour of an electoral system based on proportional representation (PR) for any future Scottish parliament or assembly.

The executive's decision, taken on a series of casting votes by the chairman of the Scottish party, Mr Mark Lazarowicz, at a meeting in Glasgow, will be put to the annual conference of the Labour Party in Scotland next week.

The executive declared that the first-past-the-post system, under which Labour won nearly 70 per cent of the Scottish seats at Westminster with only 42 per cent of the vote in the 1987 general election, would not be acceptable for a Scottish parliament. Such a system placed formidable barriers in the way of smaller parties.

There should be a system under which seats won by any party should reflect the votes cast, while preserving, as far as possible, a link between individual constituencies and members.

The issue of PR has come to a head because the Scottish constitutional convention, a body drafting a scheme for a devolved Scottish parliament or assembly, will be dealing with the issue of electoral systems in April.

The Social and Liberal Democrats are insisting on PR as a condition of their staying in the convention, of which they and Labour are the only significant parties involved. A split on voting systems could cause the collapse of the convention.

Several trade unions in Scotland back PR, notably the Transport and General Workers' Union.

Major leads the fight for his party's survival

Philip Stevens finds traditional mid-term jitters among MPs turning into deep anxiety

THE Conservative MP kicking his heels in the lobby of the House of Commons did not hesitate for an instant when asked what Mr John Major should set as his main priority in next month's Budget.

There could only be one priority - winning the next general election.

If the Chancellor has little option but to unveil on March 20 what by recent standards looks like a "Boring Budget," his colleagues at Westminster believe that, in political terms, it will be the most important for nearly a decade.

The sombre economic backdrop leaves no room for the tax cuts and the theatrical flourishes so beloved of Mr Nigel Lawson, whose acrimonious surprise resignation last October left Mr Major with the most testing job of his political career.

With the Labour Party lengthening its lead in the opinion polls by the week, morale among Conservative MPs is perhaps at its lowest ebb since the recession in the early 1980s.

They have yet predicted a Labour victory at the election due by mid-1992. For that would require a swing against the government much larger than anything seen in post-war history.

However, recognition at least of the possibility that Mrs Mar-

garet Thatcher's overall majority is at risk is no longer confined to the faint-hearted on the Conservative benches. "We could just lose," one minister commented in a gloomy whisper this week.

The bitter row over the poll tax, internal disputes over Europe and Hong Kong and a feeling that Mrs Thatcher's unflinching approach to issues such as sanctions against South Africa threaten international isolation, have all sapped morale.

Labour's progressive shift towards the centre ground of politics occupied for much of the 1980s by the SDP-Liberal Alliance, although derided by ministers as "cosmetic," has dented the once unshakable confidence that Mr Neil Kinnock was just not "electable."

There are too doubts among Conservatives as to whether the frequently abusive "conviction" politics which brought the Government such success during the 1980s will catch the mood of the new decade.

That has provoked talk of the need for a more "caring Conservatism," with extra resources for public services such as health and education; for money to take the mentally disturbed and homeless off the streets of Britain's cities.

Such worries are the stuff of the "mid-term" blues which hit virtually every administration

at about the present stage of its legislative programme. What has translated traditional jitters into deep anxiety is the worsening performance of the economy and above all the sharp acceleration in inflation and the accompanying steep rise in mortgage rates.

A reputation for competence in managing the economy is the Conservatives' most precious electoral asset. The hangover left by the unsustainable boom in 1988 has tarnished that reputation badly.

The sharp rise in real, or inflation-adjusted, incomes fuelled by a combination of tax cuts, low inflation and low interest rates has evaporated. It has been replaced by a squeeze, with borrowing costs soaring and real wages and high inflation eroding the value of pay awards.

Introduction of the community charge, or poll tax, in England and Wales in April will deepen the misery felt by many voters.

It is up to Mr Major to restore the shine. If he succeeds, his colleagues argue, most other concerns will either fade or be assuaged by judicious increases in public spending.

In spite of the circumstances of his appointment, Mr Major has succeeded in creating confidence that the turn-around is possible within the tight time schedule imposed by the elec-



BUDGET 1990

toral cycle. Although he is only 46 Mr Major is regarded as one of the most skilful politicians at Westminster and regularly tops the lists of likely successors to Mrs Thatcher.

Since October he has managed to ride out a potential storm of speculation against his leadership. Tax incentives for workplace nurseries, further encouragement for personal and measures to demonstrate the Government's "green" credentials have all been included on lists handed to Mr Major by hopeful Tories.

Mr Major's first task, however, is to convince Tory MPs and voters alike that the present gloom - described only yesterday as "very serious" for the government by Mr Kenneth Baker, the party chairman - will begin to lift by the end of this year.

There is little dissent from the view that getting inflation down is the key. Only if the pace of price rises slows can party managers expect the hills

in interest rates - and above all mortgage rates - which they believe are essential to ensure a further recovery.

That means that Mr Major will not be criticised for a fiscally neutral budget. There is little enthusiasm, however, for any move to raise income tax, even by freeing personal allowances rather than increasing them.

Such action, many Conservatives fear, could damage morale seriously. If the focus of Mr Major's judgment must be the state of the economy in a year or so, he cannot ignore totally the current acute disquiet among his supporters.

He faces demands to soften the edges of austerity with other popular and relatively inexpensive measures. Tax incentives for workplace nurseries, further encouragement for personal and measures to demonstrate the Government's "green" credentials have all been included on lists handed to Mr Major by hopeful Tories.

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Anglo-Irish assembly criticised

By Ralph Atkins

A FORMAL assembly of British and Irish parliamentarians starting in London today was dismissed as a "social occasion" yesterday by the leader of Northern Ireland's largest unionist party.

Mr James Moynihan also confirmed that the Official Unionists would boycott the meetings because of the party's objection to the 1985 Anglo-Irish Agreement.

The Anglo-Irish Inter-Parliamentary body will consist of 50 representatives from Britain and Ireland and is intended to strengthen links between the two parliaments.

The opening ceremony today, to be addressed by Sir Geoffrey Howe, deputy Prime Minister, will mark the first time Irish MPs have taken part in a meeting at Westminster for more than 70 years.

Speaking on BBC Radio, Mr Moynihan criticised the body as being "very entertaining, I suppose, for those members of Parliament who have time to devote to the kind of social occasions," but said it did not achieve very much. This was attacked as "absolute rubbish" by Mr Peter Temple-Morris, Conservative MP for Leominster and co-chairman of the body. He described the organisation as a "working body" which would have a "unique" role.

Interest rate cuts seen for 1991

By Rachel Johnson

THE GOVERNMENT will maintain a policy of high interest rates for most of the current year, but may ease in order to fight inflation and improve the current account deficit, the London Business School forecasts today.

The Chancellor will offer a neutral Budget next month, as he has little scope for policy relaxation. But he will be forced to cut interest rates repeatedly in 1991-2 in order to reach 10 per cent in time for the next general election, the LBS says.

In its latest economic outlook the LBS says that political expediency will dictate a cut in interest rates to 14 per cent by the third quarter, although such a move would run counter to sound economic policy. It believes a cut would interrupt progress on inflation and the current account.

"Electoral considerations will be at least as important as macro-economic criteria," it predicts.

Sterling will retain its current strength until the base rate cut at the end of the year, profiting from the political uncertainty in the two Germanys.

The business school says that the economy has entered a growth recession - near stagnation but without an absolute decline in output. It predicts that unemployment will rise to 17.2m by the end of the year and that the core rate of inflation will stay at 6 per cent.

ECONOMIC FORECASTS

	1989	1990	1991	1992	1993
GDP	2.3	1.0	2.6	3.1	2.2
Inflation	7.5	7.2	5.9	4.9	4.9
Consumers' Expenditure	4.4	1.1	1.8	2.2	1.5
Total Fixed Investment	5.5	-0.1	4.0	5.2	4.2
Gen Govt Consumption	0.2	0.3	1.1	0.9	0.9
Stockbuilding	3.1	-3.1	-1.0	0.5	1.0
Exports	5.4	8.5	4.1	3.7	2.6
Imports	8.5	1.5	3.5	3.1	1.9
Sterling index	93.0	88.0	88.0	83.0	83.0
SDR (Bn,fin year)	9.4	11.3	10.3	10.5	9.8
Current Balance (\$bn)	-20.4	-12.8	-13.1	-13.7	-11.8
Adult Unemployment (UK,m)	1.8	1.7	1.8	1.7	1.7

Percentage change unless otherwise shown. 1 Percentage change in volume. 22m, 1985-1989-1990.

Source: Economic Outlook 1989-1991, February 1990.

But in contrast to the trend of recent years, 1990 will be outstanding for the growth in exports.

Since 1985, domestic demand has driven output, and net exports were negative for four years running. The current account deficit will drop to about £13bn until 1992, or about 2 per cent of GDP.

However, the effects of tight monetary policy will be offset by rising real disposable income - which the LBS forecasts to rise 3 per cent this year. New borrowing has dropped sharply, and consumption is set to rise only one per cent this year, so the savings ratio should rise slightly, it says.

Against a tighter policy background than it had previously envisaged, output is forecast to grow only 1 per cent this year, and 0.6 per cent if the rebound in oil output is excluded.

However, as policy is relaxed before the election growth will pick up and there will be a strong "rebound" in demand and output.

In 1991-2 manufacturing growth will rise to 4 per cent because of buoyant markets for exports. The private service sector will bear the brunt of the long-awaited slowdown in consumer spending.

Economic Outlook, Vol 14 No 5, Gower Publishing, Gower House, Croft Road, Aldershot, Hampshire GU11 3ER. Annual Subscription £150.

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Momentum for taxing pollution

By Rachel Johnson

THERE IS NO sound economic argument for a fiscal tightening in the Budget to give scope for relaxation later, the LBS says. There is, however, a political momentum towards the idea of pricing the environment, or taxing pollution.

The Chancellor should present a neutral Budget in macroeconomic terms and focus on microeconomic tax reforms which might feature a carbon tax, the LBS suggests.

Mr Scott Barrett, a lecturer at LBS, has reached estimates of the taxes needed to achieve a reduction in UK carbon dioxide emissions by 20 per cent by 2005, the target set by the 1988 Toronto conference.

His estimates - a 41 per cent tax on coal, 33 per cent on oil, and 25 per cent on gas - reflect the fact that people will switch to non-taxed or lesser-taxed fuels. The point of the tax would be to make fuel users aware of and make them pay for the damage they are inflicting on the environment.

Mr Barrett argues, however, that a more successful way of protecting the environment would be a small carbon tax, intended not so much to reduce emissions as to raise revenue. The money would be used to help protect remaining tropical rain forests and help pay for fund reforestation.

Litigation puts Lloyd's reputation at risk

Patrick Cockburn on the effect of legal action and natural disasters on the market

FOR more than a year, dissident members of Lloyd's of London, the insurance market, have waged a campaign in the media and the courts seeking redress for losses suffered in the market, most of which stem from heavy pollution and asbestos claims in the US.

The culmination of this will come this week when 868 members of Lloyd's who belonged to syndicate 317/661 in 1982, managed by RHM Outthwaite, serve writs in the largest single legal action in the history of the market. The members, or "names," who lost £204m, allege negligence by Mr Outthwaite and hold responsible for his actions 81 members' agents who introduced members to the syndicate.

Lloyd's seems to be taking fire from every direction. With 410 underwriting syndicates, each capable of producing a drama or a crisis, the market makes a lot of news. Yesterday a US congressional report accused Lloyd's of not checking up on a Mr Carlos Miro, a Cuban born insurance agent writing phony policies, who

used his position as one of 28,386 Lloyd's members as an "advertisement for his respectability."

Many of the cases are extraordinarily complex. However, there is no doubt that the wave of litigation and bad publicity, some of which has nothing to do with asbestos or pollution, is doing significant damage to Lloyd's image.

Earlier in the month in the High Court in London Mr David Becker, a 60-year-old architect and a member of Lloyd's who was described by his counsel as "neither rich nor well," reached a final settlement over losses of £180,000 he suffered when Oakley Vaughan (Underwriting) crashed in 1983 - the first such firm to go into receivership in the 302-year history of Lloyd's.

A few days earlier Mrs Lee Shepherd, whose father-in-law had introduced her to Lloyd's in 1979, met some 70 other members of Pulbrook syndicate 90 to see what they could do to stem the losses they are suffering as a result of heavy asbestos and pollution claims

in the US. Asbestos claims alone could ultimately cost them \$250m (£146m).

Litigants against Outthwaite include Mr John Riddell, chairman of British Land, Mr Robert Maxwell, chairman of Maxwell Communication, and Mr Patrick Sheehy, chairman of BAT Industries.

The difficulty from the Lloyd's point of view is that publicity is a central aim, rather than a side effect, of much of this legal action. The big cases will take years to come to court and accusations of negligence will be difficult to prove. Therefore the most immediate leverage possessed by members is to stir up enough of a row to embarrass Lloyd's into rescuing them by some form of reinsurance lifeboat.

Aggrieved "names" are aided by the memory of past Lloyd's scandals. The executive of Lloyd's may protest that lifeboats were launched to aid victims of fraud, as in the Sasse or PCW affairs, and are not appropriate for underwriting error, however gross. But the market's record of scandal is

bad enough for the media and many Lloyd's members to be suspicious when anything goes wrong. The record includes the Sevania affair in 1974, when cars ostensibly burnt in a shipboard fire were discovered being driven around in Italy, to Alexander Rowden in 1982 when the company's new owners found \$65m (£32.4m) missing.

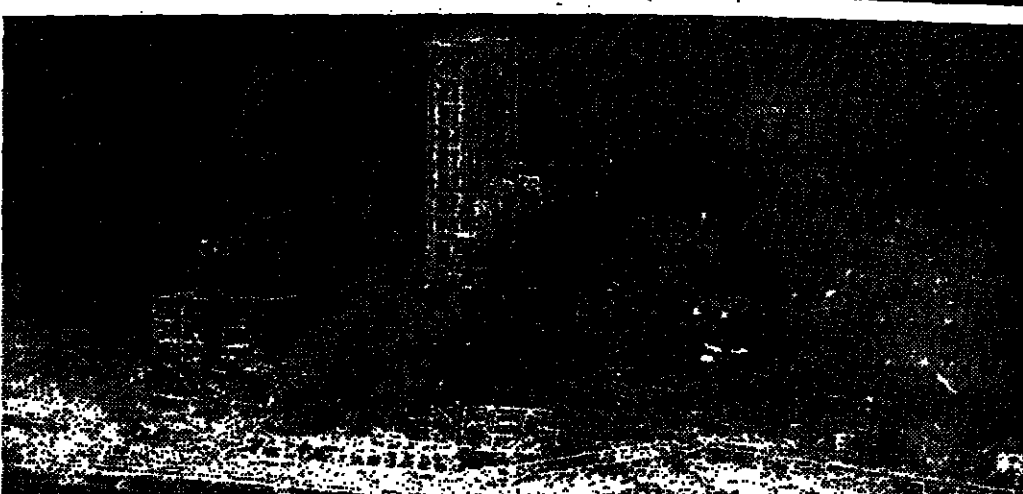
It is doubtful if there is enough support in Lloyd's to pay for an effective lifeboat. That would require room not just for Outthwaite and Pulbrook syndicates but for all the syndicates with so-called open years - years when the figures, usually losses, are too uncertain for accounts to be closed. Sixty-eight syndicates, incorporating 45 per cent of 172m by the end of the year and the core rate of inflation will stay at 6 per cent.

None of this has had much effect on the ability of Lloyd's to insure risks. Membership was down by 2,570 this year, but capacity was almost unchanged at £10.8bn. Syndicates are now using only some 65 per cent of their capacity because of low premiums. The

drop in membership is explained partly by this year's increase in the means members must show from £100,000 to £250,000. The tax advantages of being a member of Lloyd's are less attractive than they were 10 years ago, although members still benefit from being able to use their money twice: because they retain its use while providing capacity for the market.

In the longer term, however, the real danger for Lloyd's is that the asbestos and pollution claims resulting from US court decisions will turn out not to be isolated disasters for insurers and reinsurers - those with whom Lloyd's has always depended heavily on the US and is therefore peculiarly vulnerable to changes in the legal and political environment, and almost all such changes during the 1980s were damaging to the insurance industry.

There is little Lloyd's can do about this. The big UK insurance companies have also had to ensure substantial reserves against potential losses. Lon-



Costly explosion: Phillips petrochemical plant blaze which will cost at least \$1.2bn

don United Investments' share price has dropped from 400p in 1986 to 36p because of fears about its vulnerability to claims in the US.

The second threat to Lloyd's is that it is the riskier end of the insurance business which ends up in London. The trend is for big companies to meet more of their insurance needs themselves through captive insurance companies, retention of risk and pooling arrangements. By 1988, 40 per cent of commercial insurance needs

may be met outside the commercial market.

That makes the market more vulnerable to a series of disasters. There were few of those in the mid 1980s. But since Piper Alpha in 1988, the worst offshore disaster to hit the insurance industry, there has been a series of disasters: Hurricane Hugo, the San Francisco earthquake and explosion at the Phillips, petrochemical plant in Texas which cost at least \$1.2bn.

The problems of Lloyd's are

little different from those facing commercial companies. Both sectors can absorb disasters: the real damage comes when, in spite of heavy losses, insurance and reinsurance rates stubbornly refuse to go up because of over-capacity.

Given that Lloyd's works on three-year accounting, the full effect of 1988 and 1989 will take time to feed through. When it does it will do more damage to Lloyd's than the present wave of litigation.

NEWS IN BRIEF

French link in water venture

NORWEST Holst, the British construction company and Omnium de Traitement de Valorisation (OTV), the French water company, have launched a joint venture company to be called General Water Processes.

The company will provide services to Britain's recently privatised water industry. OTV is one of an increasing number of French companies which have sought to break into the British water industry. French water services have been provided by private sector companies for many years.

Timeshare move

WIMPEY Leisure, a subsidiary of the George Wimpey construction group, said it was pulling out of the Timeshare Developers Association following a review of its "relevance to existing and potential customers."

It follows the decision by Barratt International Resorts, to pull out of the TDA.

SE Topic change

TOPIG, the Stock Exchange's news and share price information system is getting a facelift. It is aimed at improving the reliability of the 10-year-old system and extending the range of services available on screen to its 15,000 users.

Talisman link

THE International Stock Exchange has taken the first step towards paperless settlement by extending its existing Institutional Net Settlement system. The new version provides electronic links between institutional investors and the exchange's central settlement system, Talisman.

FSA deadline

THE 100 investment firms which still have not gained full authorisation under the Financial Services Act - nearly two years after the Act came into effect - must make it clear to their clients from March 1 that they are not covered by the FSA compensation scheme.

Firms in this position have to date only had to show on their literature that they have "interim authorised" status.

Boost for Eminase

SMITHKLINE Beecham, the Anglo-US pharmaceutical and drugs company, said test data indicated that Eminase, its blood anti-clotting drug, was reducing the mortality rate of heart-attack patients over a longer period.

The final report of the Apsac Intervention Mortality Study Group published in The Lancet found that patients injected with Eminase were 43 per cent less likely to have died 19 months after their heart attacks than patients who had not received the drug.

ERC appointees

THE Department of Trade and Industry is expected today to announce a handful of top appointments to the Financial Reporting Council (FRC), the body which this summer will take over responsibility from the Accounting Standards Committee for the setting of accounting standards in the UK.

Today's ombudsman

David Montgomery, editor of Today newspaper, has been appointed a former editor of the Sunday Mirror as the paper's ombudsman.

Mr Bob Edwards, who was also once deputy chairman of Mirror Group Newspapers, starts his duties today.

PUERTO RICO - SPRINGBOARD TO THE AMERICAS

BRITISH CORPORATE INVESTMENTS TOP £290 MILLION IN PUERTO RICO



BREAKING GROUND IN PUERTO RICO

ICI Pharmaceuticals Inc. broke ground last December for its £345 million (US\$500 million) building complex in Guayama, Puerto Rico. From left to right are: Guayama Mayor Hector Colon, Antonio J. Colon, head of the Economic Development Administration and now Secretary of State, and Governor Rafael Hernandez Colon of Puerto Rico. British Ambassador to the US, Sir Antony Acland, and R.B. Brown and M.A. McPherson, ICI's President and Board Chairman.

A growing number of British corporations are discovering Puerto Rico's comprehensive package of incentives and tax breaks. The island's location, climate, and infrastructure make it an ideal base for international operations. The island's infrastructure is well-developed, with a modern airport, a network of highways, and a reliable telecommunications system. The island's climate is warm and sunny, making it an attractive location for businesses. The island's location is strategic, as it is a springboard to the Americas. The island's infrastructure is well-developed, with a modern airport, a network of highways, and a reliable telecommunications system. The island's climate is warm and sunny, making it an attractive location for businesses. The island's location is strategic, as it is a springboard to the Americas.

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HIGH PROFITS ATTRACTING MAJOR US AND FOREIGN FIRMS

Over 600 hundred US corporations and close to 100 foreign companies with subsidiaries manufacturing and service operations in Puerto Rico have received combined profits totaling approximately £230 million (US\$340 million) per annum, according to Puerto Rico Treasury Department data.

The profitability of Puerto Rico's manufacturing projects is several times higher than that recorded by comparable industrial operations on the continental mainland of the United States, after taxes. Puerto Rico's profit rates are also higher than those for other Caribbean islands. The island's profit rates are also higher than those for other Caribbean islands.

These are other incentives to consider Puerto Rico as an investment location. Value added for every dollar in manufacturing in Puerto Rico amounts to \$2.65 - more than twice the US value-added ratio of \$1.25, according to the latest US Census of Manufactures data.

A large number of Puerto Rico's 2,000 manufacturing plants operate with state-of-the-art systems and machinery, which also enhance the value-added performance of a highly educated and productive labor force.

These and other reasons account for British corporate involvement in other segments of Puerto Rico's manufacturing sector in addition to pharmaceuticals production.

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TOURISM INVESTMENTS SOAR; SERVICE INDUSTRIES EXPANDING

New investments approaching £1.16 thousand million (\$2 billion-US) will expand Puerto Rico's available hotel rooms and tourist industry infrastructure dramatically over the next decade. Projects under construction and announced commitments by US, European and Far Eastern business interests are expected to add 5,000 new units to the island's existing inventory of some 8,000 rooms in three-to-five years.

Investors are responding to favorable tax incentives and other inducements to participate in Puerto Rico's tourist boom. In fiscal 1989, ended June 30, more than three million visitors, including close to 800,000 cruise ship passengers, came to the island. For the second consecutive year, tourist expenditures surpassed £581 million (\$1 billion-US).

Puerto Rico is the airline and cruise-ship "crossroads of the Caribbean", making San Juan, its historic capital city, a major destination in the region. Contributing to Puerto Rico's tourist boom is Ladbroke Group PLC, which now operates the Caribe Hilton Hotel in capital San Juan and its sister hotel, the Mayaguez Hilton, overlooking the famed Spanish Main on the western end of the island.

Ladbroke made an outright decision to purchase Hilton International and its world-wide properties and operating contracts as "an investment opportunity", according to Rupert E. Huber, Vice President for the Caribbean and Latin America. Other British companies taking a role in Puerto Rico's tourism and/or transportation business include the following:

British Airways, which has expanded service from England to Puerto Rico to two weekly flights; Albert Abela Corporation, the world-famous catering organization, which now operates at San Juan's Luis Muñoz Marín International Airport; the Cunard Ltd., the pioneer in San Juan's growing cruise ship business, now linking European charter flights with its Caribbean tours; the Harrison and P&O shipping lines and Lep, a British air cargo organization, and other service and sales businesses.

Meanwhile, long-established and new British companies are handling a substantial volume of insurance business in Puerto Rico either directly or through local agents or affiliated firms. Among these companies are: General Accident, Royal Insurance, Alliance Insurance, Eagle Star, and J. H. Minet, the latter seeking qualification to do insurance adjusting business in Puerto Rico.

ISLAND LEADERS CARRYING PROMOTIONAL MESSAGE TO ENGLAND, GERMANY, ITALY

Governor Rafael Hernandez Colon, Secretary of State Antonio J. Colon and Economic Development Administrator Alfredo Salazar, Jr. are scheduled to promote the Commonwealth of Puerto Rico as an investment site for major and medium-sized European companies on a multiple trade mission starting in London at the end of this month.

The mission is part of an on-going effort initiated by Governor Rafael Hernandez Colon and Secretary Colon, the Harvard University-trained couple who have led the Commonwealth Development Administration (CDA) of Puerto Rico over the past few years. Puerto Rico's primary public agency for economic development, CDA is now headed by Alfredo Salazar, Jr., an experienced international business executive who has led the Commonwealth Development Administration (CDA) of Puerto Rico over the past few years.

Under Puerto Rico's policies, assistance provided to Spanish and English-language visitors of the Caribbean has already generated over 12,000 direct jobs - 3,000 in Puerto Rico and the others in 11 countries of the region. Approximately 130 million (\$160 million-US) in cumulative investments have been obtained for 75 production-sharing projects linking Puerto Rico with its neighbors. In addition, some £165 million (\$204 million-US) has been approved by CDA for other projects under its Caribbean Incentive Program.

Many of Puerto Rico's 2,000 manufacturing operations are establishing labor-intensive "win-win" projects in the Caribbean which are benefiting both local economies and corporate profit margins. Caribbean dealings are made easier for Puerto Rico's 3.2 million US citizens because Spanish and English are the official languages of the island.

Meanwhile, growing numbers of capital-intensive corporations - spurred by the dynamic pharmaceutical segment - are seeing Puerto Rico as their preferred, risk-free expansion location. In part, these firms are based on the fact that Puerto Rico's goods and services move freely between Puerto Rico and the US mainland. No duties, no quotas, no export charges or documentation apply to goods and services moving between the island and mainland centers.

Moreover, disposable income in the mainland market is estimated at well over £775 thousand million (\$200 billion-US). Such income is defined as the amount left after paying taxes and normal household expenses - a powerful incentive for world-class, growth-minded businesses.

Another important factor influencing companies to expand to Puerto Rico is its educated, highly-skilled and available labor force. Some US-based firms have discovered that they can expand to Puerto Rico, in the first place, because of the island's package of tax incentives and other inducements, including available factory space. But almost all companies surveyed by the Economic Development Administration state that they remain in Puerto Rico because of the loyalty and productivity of the island's labor force.

Puerto Rico's outreach for investors from Europe and Asia is a response to new realities. A favored location for major US corporations expands for four and a half decades, Puerto Rico's location is ideal for investment and commerce for Europe and Asia. The island's location is ideal for investment and commerce for Europe and Asia.

Alfredo Salazar, Jr., who took the oath of office in January as Administrator of the Commonwealth Development Administration, Puerto Rico's primary agency for industrial promotion, brings 25 years of executive banking experience to the public position. He was President and CEO of Banco de Comercio SA in Spain, the largest Spanish bank outside the continental US. Mr. Salazar successfully restructured operations there, resulting in a significant turnaround.

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Mobile communications

How Motorola plans to cut off its competitors

Hugo Dixon explains how the American manufacturer is drawing on expertise from different divisions as part of an attempt to increase its pioneering lead in cellular telephones

Almost all the attention in the current worldwide craze over mobile communications has been directed at service companies such as the UK's Racal Telecommunications and the US's McCaw Cellular Communications. But the single group which stands to gain most out of the mobile revolution is not a service company at all, but a manufacturer - Motorola.

The US electronics group pioneered the world market for mobile communications equipment and still dominates it. It has supplied 31 per cent of the network infrastructure used by cellular service companies around the world: switches, software and radio transmitters. It has also made about a quarter of the handsets used by customers.

Motorola's general systems division, which is mainly made up of its cellular businesses, had sales of \$1.9bn in 1989 - a 73 per cent increase on the previous year. Operating profits shot up an extraordinary 218 per cent to \$340m. Although the division accounts for only 20 per cent of group sales, it has already overtaken semiconductors and radio communications - Motorola's two previous mainstays.

The division's success has been built on its commitment to invest huge sums in research and development, aggressive worldwide marketing and attention to manufacturing quality.

A hallmark of its competitive strategy has also been its determination to pursue mercilessly through the courts or in the corridors of power any rivals that it thinks are stealing its patents or dumping products at below cost.

The mobile market is still in its infancy. "I would be surprised if it didn't grow by 30-40 per cent compound over the next ten years," says George Fisher, Motorola's new chairman. "That is in dollars. Unit volumes would grow even faster."

If the company can defend its global market share against all comers - notably the Japanese - over the next decade, it will not just be sitting on a goldmine. It will also be ac-

complishing a competitive feat which most other western industrial pioneers have signally failed to achieve.

But Motorola does not merely want to keep its market share; it intends to increase it. "I believe it is our birthright. We ought to have 100 per cent," says Bernard Smedley, who is in charge of the group's cellular infrastructure operations. Fisher agrees. "We have built up a core competence that is so far in excess of anybody else that we would be very difficult to dislodge... We happen to be in the right business at the right time. Given legitimate competition, we are not going to be chucked out of this."

All this may sound boastful. It may even sound complacent, given Motorola's experience in the 1970s and 1980s of being driven first out of television manufacturing and then out of the memory chip market by Japanese competitors.

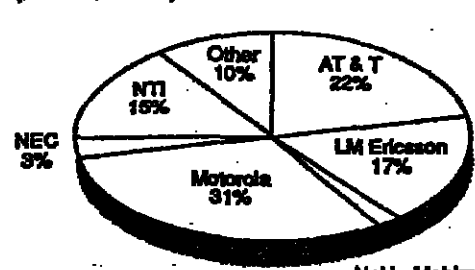
But, says Smedley: "That was the old days. That was before we learnt what the ball game was. You are now looking at a global organisation."

The key to Motorola's success in mobile communications has been its sharp focus on the market. It was one of the first companies to perceive the importance of technology - together with American Telephone & Telegraph it was jointly responsible for inventing cellular technology in the early 1970s, and has invested \$400m in research and development since then.

AT&T supplied most of the infrastructure to the Bell operating companies which, at the time cellular started in the early 1980s, were its subsidiaries. The ease with which it could make sales led to complacency, and the fact that AT&T was a vast organisation with many conflicting priorities led it to take its eye off the ball.

Motorola, on the other hand, had to work hard to win orders. The fruits of this more aggressive approach became apparent last year, when it persuaded Pacific Telesis, the most successful of the Baby Bells in the cellular market, to tip out AT&T equipment and

World market share by cellular systems awards (as of June 1989)



Total systems awards 704
Sources: Cellular Business Monthly, European Mobile Communications Monthly, Monthly EMC World Cellular Report, Quarterly FinTech Mobile Communications, Bi-Weekly Cellular operating companies.

replace it with Motorola infrastructure.

Motorola also perceived the need to compete on a global basis in order to spread across as many markets as possible its massive R&D spending.

AT&T, on the other hand, was content to supply the domestic market. Tom Powers, head of AT&T's mobile operations, admits this was a mistake. "We are still learning the rules of the game. We are just not yet in the position to spot the opportunities. We may yet regret that."

However, he thinks it is not too late to catch up. "I don't feel the ship has already left the dock and that's the only sailing."

Canada's Northern Telecom made a similar mistake of failing to go global, leaving Sweden's LM Ericsson as the only other player competing worldwide in the infrastructure side of the market - albeit with a particular strength in Western Europe.

However, Motorola has recently been building up its presence in Europe, winning four orders to supply testing equipment for the new pan-European cellular service. One covers Sweden, Ericsson's backyard.

The US group has a further advantage in being the only company to be a major player in both the infrastructure and handset sides of the market. Its main rivals in making cellular

handsets are the big Japanese electronics groups such as NEC, Matsushita and Toshiba. But the fact that they are barely involved in the infrastructure side means that Motorola always has an edge over them in knowing at an earlier stage where the technology is heading.

On the other hand, Ericsson is aiming to make up lost ground in the handset market via a joint venture with General Electric of the US. It is too early to know how much suc-

If the company can defend its global market share against all comers it will be accomplishing a competitive feat which most other western industrial pioneers have signally failed to achieve

cess it will have.

Motorola's two other main divisions - radio communications and semiconductors - have been valuable in providing a base for developing the group's expertise in mobile telephony.

The cellular division originally grew out of the radio communications division; there is thus a considerable overlap in technology. Motorola has also transferred engineers from the radio division to work in its cellular operations - given the worldwide shortage of radio communications experts, this is a great advantage. Its expertise

in semiconductors has allowed the cellular division to design products that are smaller and lighter than their rivals'.

The division has also gained from a commitment from the top to invest whatever sums of money are needed to make a success out of the new market. "I put my money where my mouth is," says Fisher, who was a researcher at AT&T's Bell Labs working on mobile communications before he joined Motorola 13 years ago.

Similar commitment is

apparent right through the organisation - evidence of Motorola's distinctive corporate culture. Fisher defines this as "a fierce desire and sense of winning. We don't like to lose."

An example of how the group's technical expertise and sharp focus led to a competitive advantage is its development of the Microtac, a pocket-sized cellular handset which is still the smallest in the world more than a year after it was launched.

Under its original plan, Motorola would not have produced a handset as small as the Microtac until 1993, says

Robert Weisschappel, who was responsible for the project. However, it decided to rush through the development in order to extend its lead over the competition.

This involved harnessing the skills of engineers in other parts of the group who were working on semiconductors, ceramic filters and so forth. "We were able to rally the whole company," says Weisschappel.

These strengths alone, however, might not be enough to inspire confidence in Motorola's prospects to retain its lead in the field of mobile communications were it not for the fact that the company has learnt three important lessons from its earlier tangles with the Japanese.

The first lesson is to give priority to improving poor quality manufacturing.

Whereas ten years ago there was a gap [between Motorola and the leading Japanese companies], today that gap is closed with respect to most companies. In some cases, Motorola is ahead of our best competitors," says Fisher.

The group's quality goals are expressed by a desire to reduce defects to the equivalent of one in every 800,000 operations.

Motorola received recognition for its success in moving towards this goal when the US Government gave it the first Malcolm Baldrige National

Quality Award in 1988.

In its quality drive, Motorola has adopted many of the techniques that have been made famous by Japanese manufacturers: making design and manufacturing engineers work together so that new products are designed with manufacturing constraints in mind; taking a pre-active approach to improving quality on the production line instead of waiting for things to go wrong and then trying to find out why; and educating component suppliers to carry out their own quality controls.

An even more important approach has been to communicate to employees and managers in a simple and effective way what the goals of any particular project are. "We are providing them with a vision of why we need to do it and with the tools to do it," says Rick Chandler, director of manufacturing for cellular infrastructure.

The effect of this programme has been to cut errors and manufacturing times dramatically. It takes less than an hour to manufacture a Microtac, while it would have taken two weeks using the old manufacturing techniques. And Chandler says he can deliver a radio base station to a customer a week after it is ordered. It would have taken 12 weeks three years ago.

The second lesson is that, in order to compete globally, huge efforts are sometimes needed to prise markets open.

This explains why Motorola last year harnessed the US Government's energies to help it force open Japan's cellular market in what became a bitter trade dispute.

The group is now supplying cellular infrastructure to one of the two private companies competing with Nippon Telegraph and Telephone and Smedley says he would be amazed if Motorola did not win the other private company's business. The group also hopes that even NTT will choose it to supply base stations.

It also explains why Motorola has been so aggressive in bringing anti-dumping actions against Japanese manufacturers for selling cellular handsets in the US and Europe at lower

prices than they were charging at home. Both actions were settled after the Japanese companies agreed to set up local manufacturing plants.

"We cannot allow other companies to have profit sanctuaries," says Fisher.

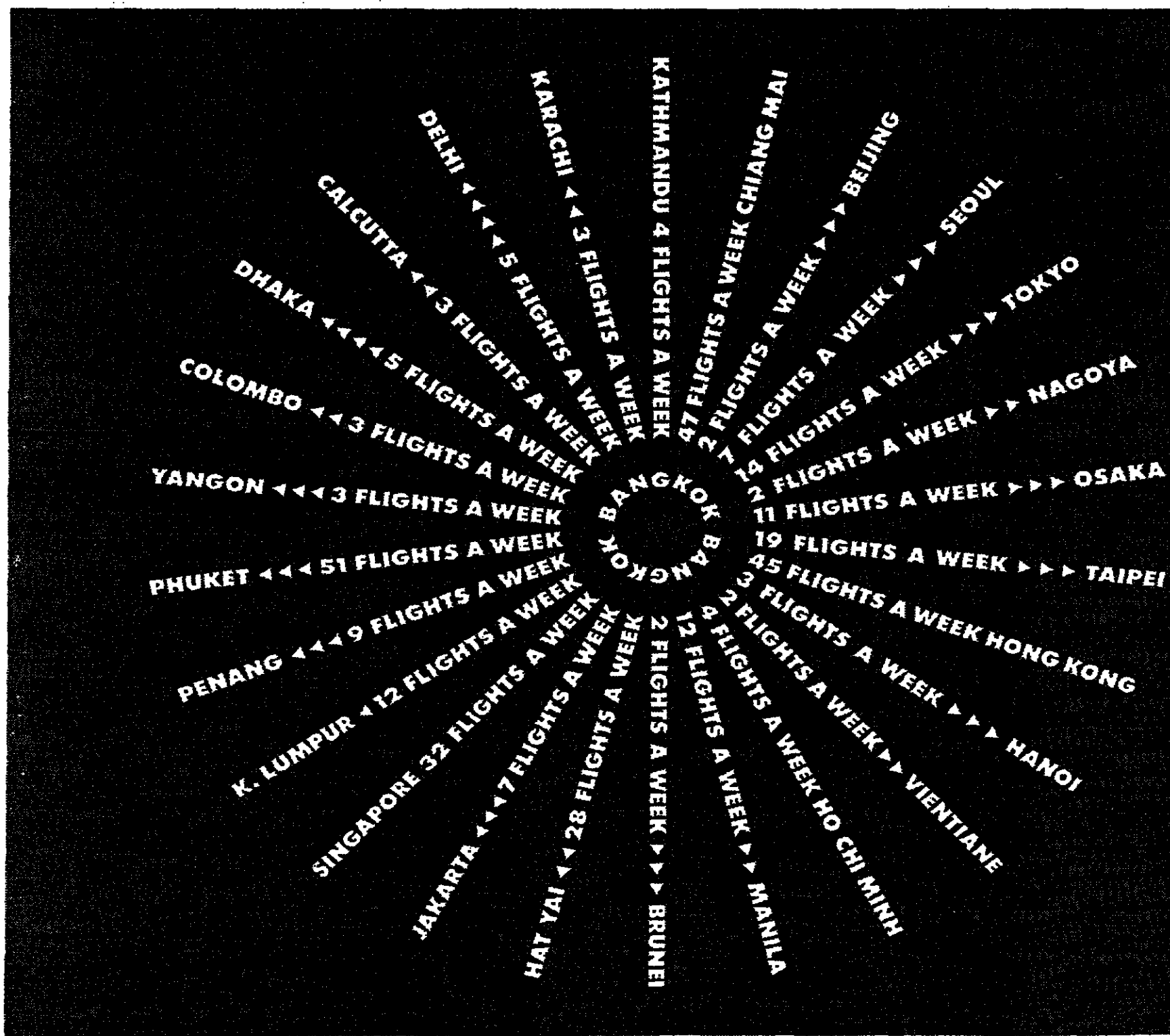
The third lesson has been the need to go to considerable lengths to protect its technology. In 1986 and 1987, Motorola took several Japanese companies to court for violating its patents on car phones. In the past year, it has been pursuing its rivals, again predominantly Japanese, but also Finland's Nokia, for infringing its patents on the more sophisticated portable phones.

Rick Paggeot, who is in charge of the handset business, refuses to put a figure on the royalties Motorola is receiving from its competitors except to say they are "substantial". Moreover, he warns that Motorola will be just as aggressive in future: "The guy who comes out with a Microtac in the next 24 months that violates our patents will wind up in court." Motorola has taken a similar line in defending its intellectual property rights on the infrastructure side. When the pan-European cellular system was being developed, Europe's phone operators suggested that all manufacturers exchange their patents with each other for free. Motorola refused, saying that other manufacturers should pay for using its technology.

"Our shareholders are owed a return on these investments that we've been making over the years. What we have in Europe is a clash with the free enterprise system. The operators' mindset is incredible," declares Smedley. "The problem is you have haves and have-nots. The haves are not equal and the have-nots have not invested."

All this means that Motorola is better placed than most other western manufacturers have been to maintain its early lead in an exciting new industry. In such a fast-changing high technology market, all sorts of unexpected developments could throw it off course. But if Motorola succeeds, there will be plenty to learn from its experience.

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ARTS

ARCHITECTURE

Paternoster Square: the way ahead

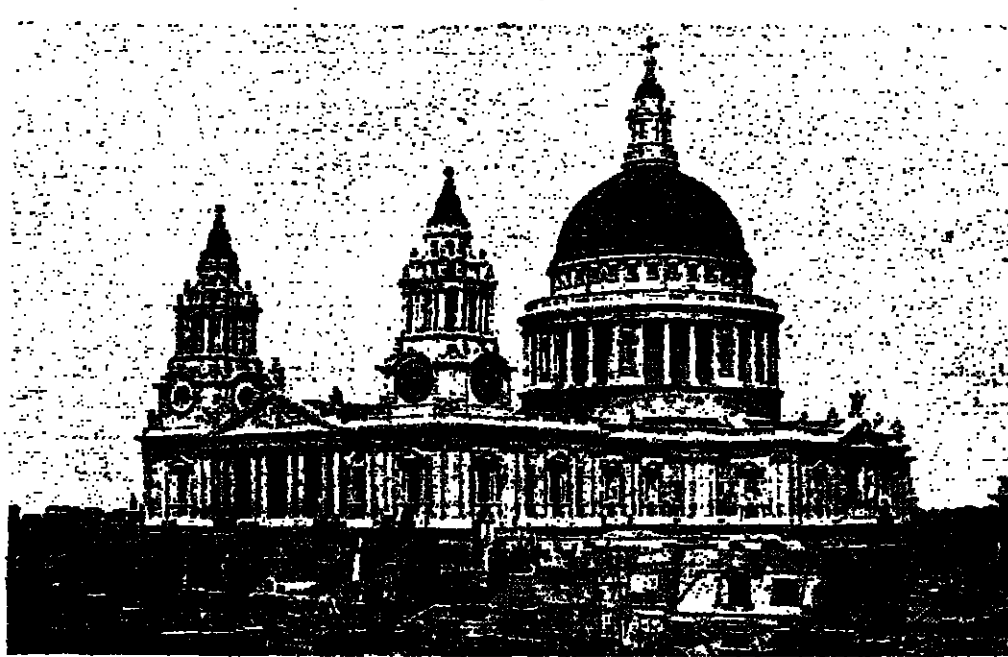
Colin Amery reports on the Prince of Wales' speech in Washington last week

Last week the architectural debate demonstrated that it is a debate sans frontiers. The whole discussion on the future of our cities, the role of the architect, shifted to Washington D.C. Two events brought things into focus.

Firstly, an important and brilliantly conceived exhibition, *Sir Christopher Wren and the Legacy of St Paul's*, was opened by The Prince of Wales at the Octagon, on New York Avenue in Washington. (This exhibition is sponsored by Cabern Publishing Company, part of Reed International plc, and continues until May 8.) The second event was a speech given by The Prince of Wales to the assembled ranks of the American architectural profession, which took the debate onto a more philosophical plane, linking it to concerns about the whole future of the natural and man-made environment.

Washington D.C. is a classical city dominated by a dome. Broad avenues, temples, statues and obelisks give this republican seat of government the air of a new, motorised, Rome. The plans for Washington, drawn up by L'Enfant, were a model of rationality. The founding fathers of the new America saw the value of the adoption of the classical style for their new nation.

The continuity of the tradition was important, but almost more important was the conviction, expressed most strongly by Thomas Jefferson, that architecture had an important role for any state. Jefferson said of architecture that it was his own delight: "It is an enthusiasm of which I am not ashamed, as its object is to improve the taste of my countrymen, to increase their reputation, to reconcile them to the rest of the world, and to procure them its praise." Sentiments that The Prince of Wales would certainly echo. He too spoke in Washington last



View of St Paul's from the Southwest, c 1874 in the Sir Christopher Wren and the Legacy of St Paul's exhibition which has just opened in Washington

week, of the need for continuity and stressed again his conviction that it is possible to have both respect for tradition and acknowledge progress and change.

The Prince of Wales made it clear in Washington that he wants to continue the debate about architecture and the quality of life in the built world. He was invited to give the keynote address at an event called "Accent on Architecture," organised as a "celebration of design excellence" by the American Institute of Architects.

I wrote last week about the work of the architect Fay Jones, who was honoured by the presentation of the AIA Gold Medal as part of this celebration. He is exactly the sort of architect that The Prince is likely to respect and admire because his work is carefully attuned to the natural world.

Because of the fortunate coincidence of events, the Prince was able to philosophise in general but focus in particular upon the Paternoster Square project by St Paul's which is included as an adjunct to the Wren exhibition. Paternoster looks set to become the epicentre of the architectural debate. It is appropriate that Paternoster should preoccupy not just the Prince of Wales, but all of us who care remotely about the future of cities and the future of architecture as a force to inspire and console the human spirit.

The Prince puts it succinctly when he says he understands the need to reflect the spirit of the age, "but what alarms me is that the age has no spirit. It is all matter and therefore unable to endure."

The challenge of Paternoster Square is an exciting one. In

those few expensive acres will it be possible to achieve what the Prince of Wales calls "a human scaled, coherent and living place of city?" All the characteristics of our time are concentrated on Paternoster. The trilateral ownership of the major part of the site Park Tower Realty of New York, Greycoat Estates of London and Mitsubishi of Japan must be almost unique, but this kind of international financial arrangement is likely to become much more common. It leads to complex architectural arrangements - in this case the British architect John Simpson is joined by Terry Farrell and the American architect Thomas Healy from Chicago and there may well be others.

The architects will not only have to design the buildings but they will have to find ways of balancing economic "real-

ity" with social and aesthetic considerations. The Prince's words seem to sum up the challenge: "I believe that if somewhere like Paternoster Square is to be both a vindication of tradition and a model for the next century, a number of 20th century developers' instincts will have to be suspended to make room for real thought: the instinct to create as much undifferentiated floor area as possible in the interests of 'flexibility', the instinct to build quickly and cheaply and thinly; the instinct to go as high as regulations will allow; and the instinct to develop unrestrained by the recognition of human needs."

Does this challenge make it comically impossible to build the best that is achievable next to St Paul's? It will be undeniably difficult and there will be a need, not just for the developers to be radical, but for the City of London to be imaginative in a way that has been beyond them until now. After all, rules are made to be broken and this part of the City must receive special treatment - even to the extent of offering compensatory development sites to the owners if the economic formulae cannot be made to work within the constraints of the site.

The excellent thing about the royal speech and the Wren exhibition in Washington is that they demonstrate so clearly that all this has happened before. King Charles II and Sir Christopher Wren had to learn the art of compromise with the rebuilding of London after the Great Fire.

Today the willingness to do the best for Paternoster certainly exists in the minds of architects and developers. It is the test case and for the future of the City Paternoster must learn from history and succeed. The will to succeed is there from American, British and Japanese. With Wren's inspiration this part of the city can live again.

Exchange

VAUDEVILLE THEATRE

I remember a student production of Yuri Tifonov's 1978 Russian hit which emphasised the social grime and sheer complex mechanics of the Muscovite housing market. Now Michael Frayn puts the title's exchange of flats in perspective: a device that sets us exploring family loyalties, conflicting values, the small betrayals and desertions that daily numb our moral awareness with their expediency and easiness.

Tanya McCallin's design sets the literal and metaphorical framework of claustrophobia: a sharply raised stage backed by a wall of the dribblingly discoloured concrete also familiar in the utopias of British urban planning.

In one corner is the Dmitrievs' home, the room they occupy in a communal flat (the maximum space per person allowed by the state that owns all city accommodation is three paces by four). Bed/tee, screens, chairs placed on tables draped with clothes - all serve as demarcation lines for Viktor and Lena and their schoolgirl daughter.

The intolerable situation can be remedied by flat swapping, much as council tenants in Britain can exchange. Private enterprise fingers in the shape of the agent, a shadowy figure of no known address who fits through the action house-broking, mutual and cross-currents that led to his ultimate disloyalty.

By the end of the play he has set up a deal of domino dependency, a house of cards that entails a 13-way exchange of flats. But this is merely the background. Viktor comes forward as narrator to probe the tensions and cross-currents that led to his ultimate disloyalty.

Inevitably a British audience finds its own equivalents for the two families we meet. Tifonov, who died in 1981, came of a principled political family (his father disappeared in the purges); and Viktor's background includes a grandfather (Colin Douglas) who knew Tsarist imprisonment, and a dead father, spectrally returning from the birchwoods nostalgically glimpsed beyond the concrete, who wrote poems and fables while working as an engineer. Viktor's mother is a pillar of sobriety and she it is who sparks off violent reac-

tions in her daughter-in-law Lena.

For Viktor marries into the Lukyanovs: arrivistes, fixers, survivors, vulgar and materialistic. Their philosophy seems to affect even the landscape; all changes in small ways year by year, all is "Lukyanovised" as their useful son-in-law admits. They have English counterparts, especially now. Lena is intelligent enough to feel defensive before the old values of decency she has married into. Viktor's weakness marks a falling-off of those values at '37 - well, it's not 47 and it's not 57. I still might get somewhere.

But moral inadequacy leads to tricking a down-at-heel cousin out of a job, abandoning the mistress who would, he admits, have made a better wife - "Don't... slouch" he helplessly orders her as she miserably slumps on the ground - and finally asking his dying mother to give up her flat in the projected swap.

They both recognise the betrayal in a scene of beautifully-played tension between Doreen Mantle and Martin Jarvis.

The play was adapted from a novel whose origins are apparent in the narrator's mammoth task. Mr Jarvis tends not to play roles that require a passion torn to tatters, so the sensitivity, observation and sheer technical accomplishment that make him one of the best actors on the British stage are taken too much for granted.

Patrick Sandford's direction takes its time - the first half is often simply undramatic - but with fine supporting players (Rosalind Ayres' Lena, Julia Watson's sympathetic Tanya, Gabrielle Lloyd who even looks like a Russian archaeologist - I imagine) the cumulative effect is powerful, resonant and one can hazard the cliché, Chekhovian.

Martin Hoyle



Martin Jarvis

Uncle Vanya

HARROGATE THEATRE

The detritus of wasted lives, abandoned, unexploited, gifts unfulfilled... Michael Spencer's design gives us the physical metaphor in the pile of dusty papers and old books downstage, complete with junked but functioning cuckoo-clock whose mocking salutation opens the action.

As Andrew Manderley's exuberantly swaggering production of *The Provoked Wife* last season showed, Harrogate's Artistic Director can seize a classic impudently by the scruff of the neck and give it a good shake. The result here is ensemble acting without a weak link, beautifully paced with - vital in Chekhov - an ebb and flow so natural that one hardly notices the variations in speed while being kept on the edge of one's seat.

The set is dominated by a long table whose wine-stained cloth still bears the clutter of a sumptuous feast. Corrugated iron walls seal the considerable height of the theatre's acting area. The watchman taps his way along the walls while the wind howls outside; his rattling tattoo fades away offstage. The storm gives us one of the angriest retired professors ever. Geoffrey Banks' Serebry-

akov rages against the dying of the light in a chill anticipation of his deathbed. Lear has made it indoors at last, cared for by his family. And much good it does them.

Jonathan Burn's Vanya has a touch of the frowsy slob. Recently seen as Polonius, this actor deepens and broadens with every new role. His Vanya belongs to the Anthony Hopkins school: a threatening strength, dormant energy, underlies that grizzled stockiness. He shows the sad, self-deprecating humour of Alan Bates as a Simon Gray anti-hero in his playfully funny wags and self-mocking head-wagging. Above all he reminds us that Vanya is not old or even elderly, but still capable of alternating resigned lethargy and vigorous emotional mania.

As in every good Chekhov production, there is one characterisation that the actor concerned seems born for. Alexandra Mathie's Sonya, a sturdy little pack-horse aching with love as she gently and automatically feeds cheese to the perorating Astrov. Nina Young's Yelena is one of the most complete I have seen. No more brainless beauty or flir-

tious flirtatiousness, she may lack the concentration for more than five agonised seconds of Astrov's lecture on his beloved forestry, but in her own field she is honest, straightforward and competent.

The production marks the British premiere of David Mamet's clear, sometimes elegant English version. Oddly I find such everyday idioms as "speak with" instead of "to more jarring than references to deadbeats and freeloaders - the production is, after all, in modern dress.

Astrov's concern for the environment comes over with shocking and ironic topicality, especially in an area where local conservation shows its Green face by considering driving a road through a Domesday forest, and pulls down yet more of Victorian Harrogate for "a new multi-level retail centre."

Chekhov is with us yet; especially when such gripping productions on the Nida argue more vitally for regional theatre than currently touted posers and mannerists on the Clyde.

Martin Hoyle

The Age of Anxiety

FESTIVAL HALL

Leonard Bernstein's Second Symphony, played on Friday by Peter Donohoe and the Bournemouth Symphony under Andrew Litton, is one of his more fascinating ventures in the field of "serious" music. Subtitled "The Age of Anxiety," and inspired by the Auden poem, it is an ambitious essay in big-orchestra writing, with an important and superbly worked solo piano part and an attached programme with obvious autobiographical significance.

When first performed, in 1948, it was criticised for eclecticism, for show-off dramatic gestures, for superficiality. In short, for all the usual Bernstein reasons.

But on this occasion, at least, the fact that the work holds together seemed beyond doubt or argument. The attached programme, like that of Berlioz's Fantastic Symphony, is less a ground-plan than a poetic analogy for musical processes that Bernstein explores with a personal and wholly convincing combination of dramatic instinct and hard-worked musical logic.

The thematic unity of this symphony - whose material is entirely unfolded out of the

simple intervallic tracery offered with quiet beauty by two clarinets at the start - is striking, the more so because of the variety of textures, styles, and moods encompassed therein.

It was a virtue of the Bournemouth performance, in which Donohoe made the piano sparkle and bounce with steel-wire strength, and over which Litton exerted secure formal control, that it moved forward, from beginning to end, with complete single-mindedness of purpose.

There was, perhaps, an occasional shortage of high-gloss virtuosity in orchestral detail. The Bournemouth players have to work hard to assume the bright, supple, jazz-influenced manners of "The Maquette," and sometimes the effort showed (the account of Bernstein's *Candide* Overture, which preceded the symphony, was taken at too fast a lick for all the notes to be clearly articulated).

But the slight sense of sobriety that attached to the performance seemed to affirm the piece's less obvious strengths. An impressive revival.

Max Loppert

Rebecca

CHURCHILL THEATRE, BROMLEY

The Bromley audience breathed a sigh of relief as the curtain rose on Tim Goodchild's magnificent affluence looking country house drawing room of a set and comfortably relaxed for their favourite fairy story - the one about the poor but honest young girl who wins the heart of a gruff but rich man. You know, Jane Eyre - sorry, Rebecca.

Daphne du Maurier's plot was already old-fashioned in 1938 but romance still rules, at least in Bromley, even if there are few men left called Maxim de Winter inhabiting mansions as lavish as Manderley on the Cornwall coast and totally committed to the happiness of their peasantry and being besotted by their young bride.

Clive Arundell plays him with a certain detachment, as if he has just bitten on a gum ball, and as the action slowly, very slowly, evolves, there seems to be no good reason why he is so brusque with the mousey Mrs de Winter (du Maurier never got round to giving her heroine a Christian

name). Helena Mitchell scores well as the girl Maxim casually married three weeks before at Monte, a walking, talking bowl of Brown Windsor soup if ever there was one.

Her "refeined" accent exactly catches the popular image of the respectable "gel" caught up in brooding machinations outside her experience.

For, of course, Manderley is still ruled by Rebecca, the first Mrs de Winter who drowned a year previously. Since she can't arrange the flowers herself (although being new to du Maurier I confidently anticipated her every time the double doors fell open) the brooding housekeeper Mrs Danvers (Pauline Jameson) acts as her acolyte and is even nastier to the second Mrs DW than her husband.

Clifford Williams has apparently modernised Daphne du Maurier's original dramatisation and he also directs. The best judge of his success is the tough counter, which was pretty disruptive during the first five scenes but totally

absent during the last, in which all the action is concentrated. The audience fell into silent rapture as the play and silent film speed, changing from an insipid ghost mystery into a psychologically interesting murder mystery.

Arundell's anguish suddenly seems appropriate as he absorbs punishment like Frank Bruno and the ending manages to be both resolutely feminist and totally fantastic.

It is a great rarity to see a large strong cast performing well in such a traditional play. Mrs Danvers should surely be more menacing, but the supporting players, especially Julian Fellows as quite the nastiest villain to turn up for years and Richard Clifford, who manages to hint that he is willing to be more than Maxim's loyal friend, were excellent caricatures.

Anyone catching *Rebecca* will know exactly what to expect and they will not be disappointed.

Antony Thorncroft

ARTS GUIDE

February 23-March 1

MUSIC

London

London Philharmonic conducted by Valery Gergiev, with Alexander Toradze (piano), Lyadov, Liszt, Tchaikovsky (Tues), Royal Festival Hall (6.55-8.30).
Royal Philharmonic Orchestra conducted by Yuri Tsimbalanov, Tchaikovsky (Tues), Barbican (6.55-8.30).
The Philharmonia conducted by Giuseppe Sinopoli, Mussorgsky, Rimsky-Korsakov, Dvorak, Tchaikovsky (Wed), Royal Festival Hall (6.55-8.30).

Paris

The Academy of Saint Martin-in-the-Fields conducted by Iona Brown, Albinoni, Torelli, Corelli, Locatelli (Mon), Chatelet (4.00-5.30).

Bavarian Radio Symphony Orchestra, Bayreuth (Tues), Bastille Opera (4.00-5.30).
Essential Orchestra of Paris conducted by Armin Jordan, Marthe Angerich (piano), Philippe Brice, Christian Cescas (violin), Bach, Haydn, Beethoven (Tues), Salle Pleyel (4.55-6.30).

Brighton Festival, mezzo-soprano, Schubert (Tues), Auditorium des Halles (4.00-5.30).
Orchestra de Paris conducted by Christoph von Dohnanyi, Alciade Larrocha (piano), Weber, Mozart, Reich, Strauss (Wed, Thurs), Salle Pleyel (4.55-6.30).

William Christie, Christophe Rousset (harpsichord), Le Roux, Rameau, Couperin (Thurs), Auditorium des Halles (4.00-5.30).

Amsterdam

The Hague Philharmonic with Godtard Roggven (cello), Hans Vonk conducting, Shostakovich (Mon), Concertgebouw (7.15-9.45).

Utrecht

Netherlands Philharmonic led by Philippe Entremont (piano), Strauss, Beethoven (Thurs), Vredenburg (8.15-10.45).

Brussels

Mikhail Berezovsky (violin, viola) and Tchaikovsky (piano), Shostakovich (Mon), Palais des Beaux-Arts.

Milan

Riccardo Muti conducting Mozart, Schubert (Mon), Teatro alla Scala (8.15-10.45).

Garrick Ohlson (piano) playing Chopin (Wed), Conservatorio G. Verdi (7.00-9.30).

Rome

Jupiter Quintet, Michele Lot and Pierantonio Casulani (violin), Stefano Fancello (violin), Gianluigi Vero (cello) and Giuseppe Zucconi Ghio (piano) playing Shostakovich and Schubert (Wed), Teatro Olimpico (8.30-10.30).

Madrid

Madrid Symphony Orchestra, Claudio Raffter conducting, Halffter, Marco, Mahler (Tues), Auditorio Nacional de Musica (8.30-10.30).

Guillem String Ensemble, Abel del Castillo and Robert Seltzer (violin), Corelli, Handel, Bach (Wed), Auditorio Nacional de Musica (8.30-10.30).

Warsaw Sinfonia Orchestra con-

ducted by Krzysztof Penderecki, Grigori Yelitsin (violin), Honegger, Penderecki, Bartok, Prokofiev.

Barcelona

Orchestra de Cadacques conducted by Edmon Colomer and Trio de Barcelona, Albeniz (Tues), Claret (violin), I. Claret (cello) (Wed), Palau de la Musica Catalana (8.00-10.45).

New York

Vladimir Feltsman piano recital, Schubert, Rakhmaninov, Liszt (Mon), Carnegie Hall (4.47-7.00).

Opera Orchestra of New York, Eve Queler conducting with Maria Martin (soprano), Tchaikovsky (Wed), Carnegie Hall (4.47-7.00).

New York Philharmonic Orchestra conducted by Zubin Mehta with Anne-Sophie Mutter (violin), Lennox Lewis, Bruch, Haydn, Kodaly (Tues), Zubin Mehta conducts, Maurizio Pollini (piano), Beethoven, Webern (Thurs).

Chicago

Chicago Symphony Orchestra, Herbert Blomstedt conducting, Yo-Yo Ma (cello), Haydn, Laderman, Dvorak (Tues), Daniel Barenboim conducting with the Chicago Symphony Orchestra, Wagner (Thurs), Orchestra Hall (4.35-6.55).

Tokyo

Sequentia, Medieval music from Germany and Islamic Spain (Tues), Osaka Hall (6.00-7.30).

Nikolai Choros, Shostakovich Symphony Orchestra, conducted by Tatjana Linnor, Opera choruses by Verell and Wagner (Wed), Suntory Hall (8.55-10.55).

Sibelius and Nielsen

BARBICAN HALL

As the century gallops to an end, so the need to celebrate its most precious achievements is likely to become ever more pressing.

The BBC Symphony Orchestra's week of Barbican concerts dedicated to Sibelius and Nielsen seems an unconscious attempt at just such a cherishing - two of the century's three greatest symphonists compared and contrasted in first-class performances under Andrew Davis.

The essays that Robert Simpson provided for the programme have enhanced the experience substantially. His encapsulation of the significance of Sibelius - a symphonic fusion of Wagnerian expansiveness with Classical dynamism - was masterly, though whether one accepts his equally high valuation of Nielsen depends, I suspect, on sharing Simpson's own view of the significance of total processes.

Strange, though, that while Nielsen's cause could not have been better served than by the programming of the Fourth and Fifth Symphonies, the choice of Sibelius in the two concerts only partially illustrated the truth of Simpson's argument; none of the late works in which all the threads are pulled together was included.

On Saturday Davis conducted Sibelius's Second Symphony and Nielsen's Fourth,

introducing them with *Finlandia*, which he tried hard to make organic and coherent but did not quite bring off.

In the symphonies, however, playing at contrasted extremes as a resident London conductor now rather than a guest, Davis seems to have renewed his resources, so that nothing was allowed to be routine and fresh, intelligent solutions were sought to each interpretative problem.

Not every aspect of the Nielsen was quite in place - the first movement can seem more incandescent, a single molten curve of energy; the surge into the recapitulation went flat.

But the central movements' delicacies were elegantly overseen and their moments of power fully revealed, and the finale's last great tonal clash was absolutely on target.

So too in the Second, shaping everything up to the "vast singing" - Simpson's marvellous phrase - at the heart of the first movement, and getting to grips with the polarities of the Andante.

In the finale, with its fleeting nods to Wagner, Beethoven, Tchaikovsky, the course was clear and unwavering; if Davis intends to give us more Sibelius on such form it will be well catching.

Andrew Clements

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Monday February 26 1990

Business and pollution

THE Elm fine levied on Shell in a Liverpool courtroom last week for polluting the River Mersey with crude oil is the latest and, for Britain, one of the most striking signs yet that business is facing a new environmental agenda.

The Exxon Valdez oil spill in Alaska last year, Perrier's withdrawal of its worldwide stock after the discovery of benzene traces in its water, the report linking Britain's Sellafield nuclear plant with leukaemia in children and now the fine on Shell - these incidents differ greatly in detail. But they have one thing in common: the intense pressure placed on the companies involved in the current climate of rising concern about environmental and safety issues.

Business might be tempted to put its head down and wait for this new environmental assault to subside, just as previous waves of green consciousness have done in the past. But this would be a mistake of the first order.

For a start, the peaks and troughs in environmental concern tend to be on a rising trend. Many industrialised countries are now legislating for tighter controls on industrial pollution. These new laws, such as the Clean Air Act before the US Congress will not be repealed if and when the present green ferment dies down. They will be the foundation on which further measures will be built during the next wave.

Tougher penalties

Companies will have to learn to live with tougher penalties for activities which damage the environment or threaten human safety. These penalties may flow from the rising costs of dealing with pollution; Exxon last week added another \$300m to the \$1.35bn of special charges already levied against its 1989 earnings for the Alaska clean-up. They may come from the logic of the marketplace, which dictated Perrier's decision to withdraw its entire stock.

The new climate will give greater credibility to organisations which by temperament are hostile to business. Every major accident will call forth a wave of anti-industrial senti-

ment. Yet heavy industrial activities, such as those in chemical works or oil refineries, inevitably carry risks.

The rational demand is not that accidents should never happen. Rather, industry should do everything to prevent accidents in the first place; it should have mechanisms in place to respond rapidly whenever an accident has occurred; and it should be open about what has happened, thereby avoiding groundless suspicion and fear among the general public.

Inadequate procedures

The Exxon Valdez and Shell's Mersey spills, although on vastly different scales, both revealed inadequate procedures for preventing oil pollution. This was the more regrettable since the two companies had long been assuring the public that they were doing everything possible to prevent such accidents. Both companies could also have been more open. Shell, for example, refused to comment in other than the most anodyne way immediately after the judgement last week. Its excuse - that it is waiting for a report from the pipelines inspectorate of the Department of Energy - does not justify its refusal to say whether it has altered operating procedures elsewhere in the UK as a result of the Mersey spill.

British Nuclear Fuels, the operator of the Sellafield plant, has been wrong-footed by the leukaemia report. For years the nuclear industry treated investigations into possible links between radiation from their plants and leukaemia clusters as will-o'-the-wisps pursued by anti-nuclear pressure groups for propaganda purposes. The announcement last week that BNFL is now prepared to fund a full study of the link is, putting it at its mildest, late in the day.

The new climate is already bringing a tougher regulatory framework to bear on companies throughout much of the industrialised world. It is imperative that this goes hand-in-hand with an improvement in industry's internal procedures, not just on the technical front but also in the explanations offered to the general public.

Aftermath of a dispute

THE PROSPECT of an end to Britain's ambulance dispute, and at a cost which is rather less than ministers might have feared, will be a great relief to the Thatcher Government. But the public, which has had to endure yet another disruption to an essential public service, will want to be assured that the settlement marks, not just a temporary truce, but the start of a search for a lasting improvement in the industrial relations and wage-setting process.

The Government and the ambulance unions have put different figures on the value of the deal reached in the Whitley Council. What is beyond argument is that people have died unnecessarily as a result of the conflict. National Health Service managers and union leaders should resolve never to let the same thing happen again.

The dispute has been so prolonged that the other health service groups covered by Whitley Council negotiating machinery are once again preparing for talks about annual pay awards. The two-year agreement should at least ensure a period of calm in which to devise a better way of rewarding ambulance staff for their distinctive skills.

The human cost of the conflict has been such that neither side can properly be said to have won. But the Government's success in resisting union pressure for a fixed pay formula similar to that for firefighters and police officers is important. It has conceded this point, it is true, but the difficulty of resisting similar demands from other groups.

Complex deal
The complexity of the deal makes it harder to judge the victor on pay. Mr Roger Poole, the chief union negotiator, lapsed into hyperbole when he talked of driving a coach and horses through government pay policy. A two-year deal worth 13.5 per cent hardly does that, even if it is more generous than others for workers covered by other Whitley Councils.

The deal is better value for health authorities' money than suggested by some of the higher figures quoted in the

aftermath of talks suggested. Extra payments for paramedics are a sensible attempt to encourage a more highly-skilled service. The 2 per cent increase tied to local savings are a useful incentive to greater efficiency.

Mechanism overlooked

The most disappointing aspect of the agreement is that it provides no mechanism to stop tensions over pay building up again. None of the fundamental issues raised by the dispute - the value of local pay bargaining, the need for a two-tier ambulance service, and the disadvantages of constrained pay bargaining in Whitley Councils - has been resolved.

During the dispute, Mr Kenneth Clarke, the Health Secretary, said he wanted to make progress on all these issues. Instead, the agreement seeks more local pay flexibility within a national framework, guarantees no extra money for health authorities to train paramedics, and assumes that the Whitley Council will carry on much as before.

It would be a pity if the Government once again lost interest in trying to achieve a more coherent and stable form of pay determination for a group of public sector workers as soon as an industrial dispute subsided.

Instead, Mr Clarke should ensure that NHS managers apply their minds to the underlying issues before pay talks restart next year. The agreement says that future pay negotiations should take account of "career and pay structure problems." One lesson of the dispute is that Whitley Council negotiations are often an inefficient means of doing this. Instead, separate talks are now required on reforms to the structure of the service and a new means of long-term pay determination. Such talks would provide a chance to find a way of avoiding the cycle of pay constraint and conflict that characterises much of the public sector. Mr Clarke was right to reject a rigid pay indexation formula, but more flexible forms of long-term pay determination are possible, as the Government has already shown in the non-industrial civil service.

Kevin Done analyses Friday's elaborate deal between Volvo and Renault

Renault and Volvo are embarking on a new form of marriage. Each partner is keeping its maiden name and each will continue to live at its own address.

The pre-marital agreement, announced last Friday, specifies that each partner maintains its "integrity and independence," in the words of Mr Pehr Gyllenhammar, Volvo's chairman and chief executive. Married life will be lived out in a series of joint committees.

Both Mr Gyllenhammar and Mr Raymond Lévy, Renault's chairman and chief executive, have clearly become convinced that the two groups' future is threatened by the increasingly brutal competition they expect in the automotive industry. For Mr Lévy, Renault and Volvo are joining forces "in as balanced a way as possible." For Mr Gyllenhammar, this is a new sort of relationship that transcends the old rule of "eat or be eaten." This is an alliance, he said, where both groups will "keep their integrity, will keep both HQs, but gain considerable synergies and increased efficiency. We will be well above the critical mass needed to compete in the world industry."

The flirtation between the two groups has lasted a long time. A decade ago Renault took a minority stake in Volvo's car subsidiary. This rose to 15 per cent with an option to increase it to 20 per cent in 1985-86. Like Friday's deal, the 1979 agreement was announced in ringing terms. It, too, was ambitious, providing for "co-operation in research, product development and production."

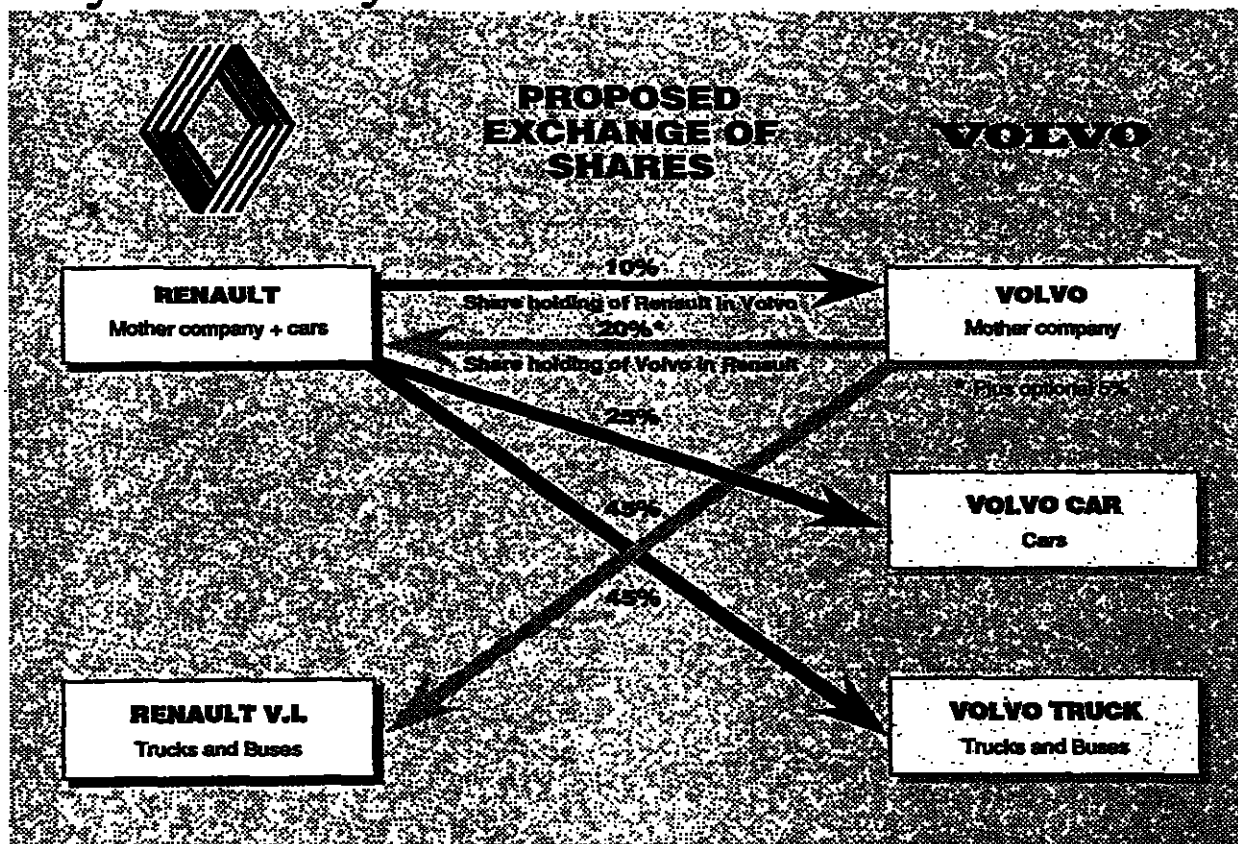
In the event, the aims were never realised. The contrasting financial fortunes of the two groups, which had drawn them together, were reversed. Originally it was Volvo's shaky finances that were the foundation for a deal. By the mid-1980s, however, Volvo was flourishing - and Renault was losing money on both cars and trucks. Hampered by its role as the flagship of French state-owned industry, it had been slow to react to the crisis of the early 1980s. It lost 1.95bn (\$1.1bn). It did not exercise its Volvo option and sold back its remaining 9.4 per cent stake in Volvo Cars at the end of 1985.

Since then, Renault has staged a dramatic recovery. It cut its workforce by 30 per cent over three years; drastically improved productivity and quality; sold American Motors, its US subsidiary, to Chrysler; and recapitalised its truck and bus operations. In 1988, it achieved a net profit of FF7.89m. Volvo has been enjoying record profits in the second half of the 1980s, but the profitability of its car operations has been weakening, with the truck activities taking up the slack. In 1988, the car business contributed 95 per cent of group operating income, with the truck operations contributing 14 per cent. (There were offsetting losses in other areas.) By 1988 the truck operations were contributing 37 per cent of the total, with 50 per cent coming from cars.

Volvo has been clearing the decks in order to concentrate its resources on its automotive operations. The years when corporate survival appeared to lie in diversification are behind it, as are its adventures in oil, biotechnology and food.

Now, at the beginning of the 1990s, both Volvo and Renault have the finances in order. At least for the moment, they have firmer ground under their feet. This allows them to consider visions for the future, with neither side starting from a position of particular weakness.

And each company has its individual strengths. Volvo is one of the world's leading heavy truck makers, outgunned only by Daimler-Benz. In cars, it has only 2 per cent of the west European market, but it has a strong



With this committee I thee wed

Images of safety, reliability and longevity. It is one of the most successful European car exporters to the US.

Renault is still a full range volume car maker. Although it is the weakest of the Europe's six big carmakers, it has more than 10 per cent of the west European car market, only four percentage points behind the leaders. Its truck subsidiary, Renault Vehicules Industriels (RVI), has a strong market position in southern Europe, France and Spain. It is present in the market for light and medium trucks, from which Volvo is largely absent.

The two companies agree on the agenda they face. The pressures forcing them together, outlined by Mr Lévy in a recent speech, include:

● The danger of a downturn in the

present record levels of European car and truck sales

● Questions of "the very acceptability of the automobile" because of such factors as air pollution, noise, traffic congestion and safety

● The quickening pace of technological change, with sharply rising research and development costs and the launching of new models at ever closer intervals

● The rapid rise in capital expenditures and steeply climbing marketing costs as competition grows fiercer "with the attendant risk of a price war"

● Overshadowing all these elements, the Japanese threat. The building of Japanese production and engineering capacity inside Europe means that the

Japanese share of the European market could soon rise to 15-20 per cent from the current level of around 11 per cent. That would imply the possible elimination of one of the present volume carmakers in Europe.

According to Mr Lévy, "the risk is clear to see: factory closures, even whole corporations shutting down, massive redundancies - in short the very survival of the European industry is at stake."

The solution, he says, is for companies jointly to achieve economies of scale in research and development, production of engines and gearboxes, and some types of automated equipment. They must share experience, seek synergy in model ranges and distribution networks in some countries.

At the same time the deregulation of the European transport industry will lead to the creation of bigger, more powerful transport groups, able to exert downward pressure on the truck industry's margins. With profitability already under attack in parts of Europe and in North America, Mr Lévy predicts further shake-outs and mergers.

Volvo and Renault have decided to face the gathering storms hand in hand. Whether marriage by committee proves an adequate response remains to be seen. There is, for example, already one significant difference between the two groups' positions. For Mr Lévy - though not for Mr Gyllenhammar - the process of uniting the European automotive industry must go on behind continuing walls of protection from its Japanese rivals. "Too sudden an opening of European markets to the Japanese would destroy the European car industry," he said last year.

Such differences may simply underline the two companies are determined to retain. None the less, the task of co-ordinating two teams of engineers, product planners and purchasers - each equally set on integrity and independence - will not be easy. The elaborate structure linking the two groups will have to take a great deal of strain.

Obviously, at a chaotic press conference in Amsterdam on Friday, the structure seemed less than robust. Neither Mr Gyllenhammar nor Mr Lévy was able to take charge of the occasion for fear of upstaging the other. If the newlyweds are to realise the hopes they pin on matrimony, they may have to sacrifice such delicacy.

George Graham

Letters to the Bank

■ The Bundesbank receives a lot of letters and telephone calls these days, not least because of the possibility of monetary union between East and West Germany. Recently it has been fielding about 200 calls a day on the subject.

Important though this is, however, it is as nothing compared to the reactions to the Bank's decision to start advertising.

The central bank is not exactly promoting itself. It is mounting a campaign to publicise and explain West Germany's new banknotes, which go into circulation next October.

Stimulated no doubt by the historic questions now facing the two Germans, the response to the invitation to write for more information has been enormous - some 15,000 letters in the two weeks since the full-page advertisement was first run.

Not all the letters are directly about money. Some women want to know why female faces will tend to be restricted to the lower denomination notes. The Bundesbank's answer is that these are the ones in greater use and are thus seen more often.

There is also a point of style. On the DM1,000 note, which few will possess, is a picture of the Brothers Grimm of fairy tale fame. In the German text of the ad, they are called Die Gebrüder Grimm, as they are generally known. But Gebrüder is normally used in company names. Brüder would be grammatically correct.

The Bank has five people working full time on the letters. One day last week, three secretaries sent off 6,000 replies.

Moreover, the weight of public opinion may force one significant change in central bank policy. In view of the momentous events that have enveloped Berlin and in response to popular demand, it is consid-

ering putting the city's Brandenburg Gate on some of the notes.

Think of it

■ "If all the articles that are normally found in the kitchen - plates, pots, cutlery, electrical appliances, large and small - were laid end to end, it would add up to a good many metres." Press release from a Milan kitchen furniture trade fair.

Piper's Boom

■ The game of musical chairs following the merger of Coopers & Lybrand with Deloitte is claiming a senior victim this week, but he is going straight into a new career.

Geoffrey Piper went to Liverpool from Jersey in 1986 as Deloitte's senior partner. Nobody in the firm wanted the job because of Merseyside's reputation, and he says he will never forget the look on his wife's face when it was offered. The 48-year-old Piper has now lost the contest to be the new firm's top man in the north-west region - the post goes to John Jeffrey - and is leaving the company. But there will be no going back to the south or offshore. The Pipers are staying put because they like where they are.

Three years ago Piper founded Boom - Business Opportunities on Merseyside - a lobby group of private sector and political leaders to help promote economic revival in the region. So when a headhunter called to see if Piper could suggest names for a chief executive of the north-west business leadership team, he put his own name forward. The team consists of about 20 senior industrialists chaired by John Ashcroft of Coltrane and includes the Duke of Westminster, Sir David Alliance



"Hello, I'm canvassing for the Conservatives at the council elections. Hello, I'm..."

of Coats Vyvella and Des Pitcher of Littlewoods.

It wants to see greater business support for community projects and economic regeneration on a wider scale than anything attempted before by bodies such as Business in the Community.

There is a belief in the area that Shell got away with a relatively light fine (£1m) last week for polluting the Mersey partly because of its support for worthy causes like Piper's Boom. Doing good could be an insurance against the occasional clanger.

Irish troubles

■ "Shiney", an Australian resident in Dublin for nearly 150 years, is finally going home. At least part of him is on its way back down under.

"Shiney" is the preserved head of an aboriginal warrior who died in the middle of the last century. The head was donated to Dublin's Royal College of Surgeons in 1856 by a doctor back from the Andes with his dubious booty.

Recently the presence of "Shiney" in the Irish capital has been generating some embarrassment. Ricki Shields, an Australian aborigine, arrived in Dublin to lobby politicians for the return of "Shiney" to Australia. "Nobody can own somebody else's head," said Shields.

Next came Michael Mansell, who claimed he was a direct descendant of "Shiney". Mansell said "Shiney" had been murdered while working at Hobart docks. His head had then been preserved and unceremoniously carried off to Europe. Mansell insisted that his ancient relative could not die until his head received a sacred burial.

The Royal College of Surgeons in Ireland has now given in. But there may still be arguments about a final resting place. The Irish surgeons say they want "Shiney" to go to the National Museum of Australia. "Shiney" campaigners are demanding special burial in Tasmania.

Two Becketts

■ Far and away the best of the British political reference books is Dod's Parliamentary Companion. The 1990 edition, however, contains an uncharacteristic error. The biography of Margaret Beckett, the once left wing wing Labour MP for Derby South and now the very model of a statesmanlike shadow minister on Treasury matters, is printed twice: once alongside her own photograph and then beside a picture of Roy Beckett, who is the Ulster Unionist MP for East Antrim. Apologies have now been made and a special cutting of his biography has been sent out to paste over the mistake.

Argentina

■ "What is better value for money in Buenos Aires - a bus or a taxi ride? The taxi ride, because with a bus you pay when you enter and the taxi when you get off."

Only JAL have 17 flights a week from Europe to Japan.



[illegible]

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FINANCIAL TIMES

Monday February 26 1990

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HAVEL EXPECTS CRUCIAL BILLS THIS WEEK

Czechs lay base for market system

By John Lloyd in London

THE CZECHOSLOVAK Government is today likely to approve three bills which will lay the foundation of a market system.

President Vaclav Havel said yesterday at a rally organised by the opposition group Civic Forum that he expected the bills would be presented to parliament this week or next.

But he also warned his countrymen of the hardships they would have to endure on the newly planned road to prosperity.

"The recovery will last many years and will be paid for with many a hardship," he told the rally.

"It will be a punishment for our passive participation in this work of destruction," he explained, alluding to the

acceptance of Communism by the majority.

The three bills are:
● A law on state enterprises, which will permit the typically large Czechoslovak state companies to sell shares to their workers.

● A law on private enterprise which will allow Czechoslovak citizens to start companies of their own with no limits on numbers employed or amount of output, and with the same rights as state companies.

● A law on shareholding companies which would allow foreign capital to own up to 100 per cent of a company based in Czechoslovakia.

Under preparation is a fourth bill which would demopolise foreign trade and allow Czechoslovak companies

to trade directly with foreign counterparts.

The original package is set to go to a Cabinet meeting today though officials say it may be postponed until later in the week.

The free market zeal of the Government's economic ministers - Dr Václav Klaus, the first Deputy Prime Minister, Mr Vladimír Dlouhý, the Planning Minister, and Mr Vaclav Klaus, the Finance Minister - has been tempered in the first three months of government by a gathering realisation of the size of the problems facing their country and of the necessity for harsh measures.

Mr Jan Urban, Secretary General of the Civic Forum movement which brought the opposition to partial power,

and an adviser to President Havel, said in London last week that the government was "delaying economic reform because it did not want to be unpopular with the people before an election."

Mr Urban said that the next month or two represented an unrepeatable opportunity for radical measures, when people were prepared for sacrifice.

The upcoming economic measures will begin the job of introducing the market into the exceptionally statist Czechoslovak economy. However, harder decisions, as on prices and subsidies, rents and currency are likely to be left until the elections deliver a government with a popular mandate.



Forbes, collector of adventures, dies at 70

By Roderick Oram in New York

MALCOLM FORBES was not a shy man. His passion for life was matched only by his flair for publicity and an unwavering commitment to the American way. He named his private jet Capitalist Tool.

The US publisher, a voracious collector of adventures and treasures, died in his sleep of a heart attack on Saturday night.

He had celebrated his 70th birthday last summer with a \$2m party at his palace in Morocco. Hundreds of the rich, famous and powerful from around the world had descended on Tangier in a pair of rented 747 airliners and flocks of private jets.

Assailed by some for his conspicuous consumption, Forbes rode the updraft of publicity with the same deft touch he piloted his hot air balloons in numerous daring-do flights the world over.

His last public event on Friday typified a zest which landed him in society columns more often than the headlines. He had hosted at his London home a bridge tournament pitting US tycoons against British MPs and peers.

Mr Forbes flew back to the US in his private jet, arriving at Timberline, his New Jersey estate, at 5.30am Saturday. He asked to see Dr Oscar Krueger, his doctor and friend, later in the day. He was found dead in the afternoon and found he had died in his sleep.

Born in New Jersey in 1919, Mr Forbes was the third son of Bertie Forbes, a Scottish immigrant, who founded Forbes magazine in 1917. A distinctive and influential monthly magazine, it reflected the spirit of his father, Malcolm Jr. In recent years Malcolm Jr. The magazine has been the bedrock of the Forbes fortune.

Famous for its annual league table of the world's wealthiest people, the magazine was always scrupulously circumspect about Mr Forbes' own fortune. He said other rich people could tell for collectors they were victims of inflated estimates by his researchers. Any number attached to his name, though, would ring of insider truth. Outside estimates of his wealth range from \$500m to \$1bn.

He inherited the magazine on his father's death in 1954. His career as businessman, socialite and collector began in earnest today. Today, Forbes' headquarters in Manhattan is also a museum for some of his most prized objects.

While Forbes and other publishing ventures blossomed under his guidance, it was his recreational activities, particularly motor-cycling and ballooning, that caught the public imagination.

"People think you're eccentric if you ride a motorcycle. Unless you're poor. If you're poor, they think you are nuts," he once said in an interview.

Always ebullient, friends said he was happiest gathering a group together for an adventure somewhere in the world, whether on bikes, in balloons or in his luxury motor yacht.

First Boston admits exposure

Continued from Page 1

of taking on some of the company's bridge loans. This intensified speculation that First Boston needed to sell part of its bridge loan portfolio to raise cash. There were widespread reports that First Boston had missed interest payments to Credit Suisse and was planning to renege.

First Boston denied the rumours, although it did say that it planned "a disciplined look at our cost structure to ensure that we are as lean as possible."

The meaning of life for the banks

Lloyds Abbey Life's good results last Friday said one thing about Europe's vogue for banking and insurance tie-ups. Its share price since its creation in late 1988 says something else.

From this case and some others, like that of France's Crédit Agricole, it seems incontrovertible that when an in-house life insurer goes to work on a bank's captive customer base it can build market share rapidly and at low cost. The poor performance of Lloyds Abbey's shares, since Lloyds Bank took 57 per cent of Abbey Life without a proper bid, is equally worth pondering.

It stems partly from the vanishing of the bid premium from Abbey's share price. The other reason is that by folding a finance house and its estate agencies into Abbey to make Lloyds Abbey Life, Lloyds created a stock that was largely a UK interest rate play. This is where the whole issue gets slippery.

Operationally, UK data suggest that selling via a bank branch can give a life insurer a return on equity of 25 per cent or so, compared with little more than a third of that via a broker. Lloyds Abbey is still a long way from matching Crédit Agricole's Predica life assurance subsidiary, which went from zero to 11 per cent of the French life market in three years.

But Lloyds Abbey has already edged its UK market share up from 3.8 per cent to 4.1 per cent, and the sales staff it uses to sell Lloyds' customers are selling five times the industry norm.

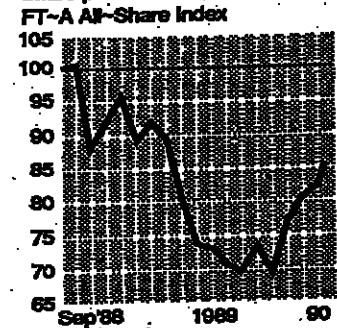
The ambiguities come from the way the character of banking and insurance profits differ, so that combining them may not always be as good an idea as it looks. In 1988, falling earnings at Lloyds Bowmaker, the finance house, took a little of the shine off Lloyds Abbey Life. It can work the other way round, too. Bankers newly enamoured of life insurance should look at some 1970s share price charts and see what inflation does to insurers.

Eurotunnel

The Channel Tunnel may have survived its latest crisis, but some in the market have started to worry whether the five UK contractors will need to make provisions for potential losses on the contract. There are two obvious elements of exposure: the lump sum payments on building the terminals and the agreement on tunnelling overruns. On the former, there is a \$400m (\$680m) gap between the final

Lloyds Abbey Life

Share price relative to the FT-A All-Share Index



cost estimates of Eurotunnel and TMI.

Over the next few years, that gap will be reduced by argument or, if necessary, by arbitration. Apparently, there will be no big decision on the whole amount, just a series of smaller decisions. That seems likely to ensure the eventual extra costs to be borne by the contractors will be somewhere between zero and \$400m.

On the question of tunnelling cost overruns, assessment is tricky. The contractors' camp says it is happy with the current ceiling; but this is a project where costs have already jumped 50 per cent. In construction terms, though, the project is still at an early stage - only a quarter of the costs have been incurred - and for the contractors to provide for further rises at this stage would do little to bolster either banks' or shareholders' confidence ahead of a \$1.5bn funding exercise.

For the moment, the contractors say that they can make a profit on the project. So why make provisions? Given the contractors' exposure to the housing market, investors may currently have plenty of reasons to avoid the shares anyway.

Globe/Electra

Strategically, Globe Investment Trust's sale of its holding in Electra makes sense. The sector has been tidying itself up over the last decade and this was one of the last substantial crossholdings. And it made little sense for a large general trust to concentrate eight per cent of its portfolio in one holding.

But there are some logical quirks about Globe's method of disposal, however laudable it may be to offer shareholders first bite. Shareholders are being sold what they already own on the implicit assumption that Globe can invest the proceeds in a better vehicle than Electra. Why then should Globe's

shareholders find Electra shares appealing? Globe says it will increase its own unlisted portfolio; but shareholders might well feel that Electra has more experience in this field and is likely to succeed better at it.

There is obviously some value for Globe shareholders in owning their Electra shares directly rather than indirectly. But otherwise the value is hard to grasp. The discounted issue price may appear to make the Electra shares more attractive, but Globe's net asset value falls accordingly. Electra's shares dropped to only 5p above the offer price yesterday, indicating that the market also expects the issue to create an overhang.

Admittedly, Globe's alternatives - a free issue or a placing - would also face objections. But the problem is the inevitable result of Globe having allowed a single investment to bulk so large in its portfolio.

Brewing

The haggling between Elders and Grand Metropolitan over their pubs/breweries deal seems to have reached a curious kind of stalemate. But there seems little doubt that GrandMet is in the stronger position. Last week's results from Elders confirmed the impression of strain being suffered by Elders in financing its investment, at a time when Mr Elliott is also finding difficulty in getting the right price for his Scottish & Newcastle stake in the London market. The deal also looks less important to GrandMet in terms of scale; even an outright sale of the breweries would fetch less than the sale of Alpo in the US.

On the other hand, the market may take less kindly to suggestions emanating from Australia that an Elders/GrandMet deal would involve an equity swap. The whole point of asset disposal from the market's viewpoint is that GrandMet should reduce its debt mountain.

In addition, any substantial link with the tangled Elliott empire would make GrandMet's business that much less transparent. Granted, last week's results from Elders showed strong growth in brewing. But that was helped by the completion of the brewery merger in Canada and by the weakness of Elders' one big Australian competitor, Mr Alan Bond. It is not to be supposed that Mr Elliott is just another busted Australian entrepreneur; but his recent record is patchy, all the same.

Honecker 'expropriated ransom funds'

By David Marsh in Bonn

MR ERICH HONECKER, the former East German leader, is under investigation by the East German judicial authorities for having allegedly expropriated DM75m (\$44.6m) last year in connection with the regular ransom paid by the Bonn Government for East German political prisoners.

The inquiries, confirmed yesterday by the East German public prosecutor's office, form part of the investigations into suspicions that the former state and party chief was guilty of "high treason."

The prosecutor's office in Berlin underlined yesterday that the investigations into Mr Honecker - who has cancer and is being cared for by an East German pastor - have not been completed.

The allegations of expropriating funds may turn out to be grossly exaggerated. Officials at the Bonn Ministry for Inter-German Relations, which handled prisoner exchanges until they were stopped after the East German revolution last autumn, insist that the political prisoners traded at around DM100,000 a head were exchanged for goods, not for direct cash.

Nonetheless, the East German judicial action will focus attention on a practice which both states have been anxious to keep under cover. It started



Erich Honecker, accompanied by his wife Margot, leaving an East Berlin hospital after treatment in January DM300m-DM400m a year for the releases.

This figure appears to include both liberation of special category political detainees and also the less costly payments for "bringing together families" across the East-West German border. Officials have been embar-

assed over the frankness of Mr Carstens' revelations. More than 30,000 East German detainees were freed over the years as a result of the exchanges. Mr Ottfried Hemig, a state secretary in the Inter-German Ministry, admitted at the beginning of the month that the systematic rationing was one reason for the paucity of significant post-revolution opposition figures in East Germany.

Mr Ludwig Rehlinger, a former state secretary in the Inter-German Ministry, who was a key figure in the exchanges during the 1980s, is believed to have written a book on the practice and to be seeking approval to publish it.

Mr Wolfgang Vogel, the East German lawyer who was for years Mr Rehlinger's intermediary, is helping to defend Mr Honecker during the judicial inquiry now proceeding in East Berlin.

East Germany's interim Prime Minister, Mr Hans Modrow, said yesterday he would lead the re-established Communist Party in elections next month after all, writes Leslie Collitt.

He disclosed his candidacy to a party congress in East Berlin, which approved a change of name from Socialist Unity Party to the Party of Democratic Socialism. Page 4

Bush asks Kaifu to review trade friction

By Robert Thomson in Tokyo

MR TOSHIKI KAIFU, Japan's Prime Minister, has received a sudden invitation from President George Bush to visit the US this week to discuss growing trade friction between the two countries and developments in North Asia.

Before the invitation, US officials had expressed disappointment at the lack of "political will" in Tokyo to redress the enduring trade imbalance, and the lack of new ideas produced by Japanese negotiators at talks to remove "structural impediments" to trade.

Mr Kaifu had been expected to visit the US in late April or May. But during a telephone call from Mr Bush on Friday night, the Japanese leader was congratulated on his election win last week and invited to meet the president in Palm Springs, California, this Friday.

The rush visit will come at the end of a week in which Mr Kaifu has to announce a new cabinet for which political manoeuvrings continued yesterday - and deliver a major policy speech to the Japanese parliament.

Japanese government officials are concerned that debate over the country's \$49bn bilateral trade surplus could enter a new phase of confrontation in coming weeks. The Structural Impediment Initiative (SII) talks and outstanding actions under the punitive Section 301 of the US Trade Act are soon to reach a climax.

The third round of SII talks

ended in Tokyo on Friday, with US officials expressing frustration with the "prospect of minimal further action" by Japan to reduce the surplus. They warned that Japan could be at the mercy of a hostile US Congress unless concessions were made.

On trade, Mr Bush is expected to ask Mr Kaifu to oversee changes to the complex distribution system and land use regulations, and to tighten anti-monopoly laws to ensure that US companies are able to compete in Japan.

But the suddenness of the trip and the busy political diary in Tokyo this week will make it difficult for Mr Kaifu to produce any new trade policies.

During the talks the president will explain last week's announcement of planned US troop cuts in Japan, which came as a surprise to the Japanese Government. He is also likely to offer more support to Tokyo in its dispute with the Soviet Union over ownership of the South Kurile Islands, or, as Japan calls them, the Northern Territories.

Japanese officials are worried that Mr Bush and other senior US officials have been focusing on events in Eastern Europe to the detriment of their interest in Asia. Tokyo will be looking for reassurance that the bilateral relationship's importance remains undiminished by the trade dispute. Grasping the skills to negotiate, Page 17

Saatchi intends to keep core business

By David Owen in London

SAATCHI and Saatchi, the UK advertising agency, is prepared to listen to "any reasonable proposition" to bolster its prospects in the wake of last week's collapse of confidence in the company.

This might include seeking partners or outside capital but not selling or diminishing its core business. "We are reviewing the business root and branch," the company said last night.

The company announced on Friday that profits were "unlikely to achieve current market expectations" after completion of a review of its operations by Mr Robert Lou-Dreyfus, who last year replaced the Saatchi brothers as chief executive, and Mr Charles Scott, the new finance director.

This announcement came after its shares had fallen by almost a third in two days to 138p. Sentiment was also hit by renewed publicity for a US shareholder lawsuit alleging that adverse information on the company's prospects had been concealed.

Saatchi said yesterday that cost controls and budgeting had in the past gone awry and were at the root of its difficulties. "That has been brought under control," the company said. The business continues to perform well at a revenue level, in spite of the slowdown in advertising spending, it said.

"The advertising businesses are the best in the world as measured by any measure you

care to take. These are impeccably good businesses," it said.

Saatchi also confirmed that it was considering retaining an equity stake in some of the management consultancy businesses that it put up for sale in June. It wants to facilitate their disposal on acceptable terms in a difficult environment for selling companies.

"The company will cut its cost according to the cloth of the market; if it needs to retain a stake it will," the group said. It emphasised, however, that the disposal of management consultancy operations - in order to concentrate on the communications businesses - remained a priority.

Hay Group, which contributes roughly half of Saatchi's consulting revenues, said last week that it hopes to unveil a management buy-out towards the end of next month.

Hay said negotiations with Saatchi, which first sprang to prominence in the 1980s as a result of its campaigns for Britain's Conservative Party, have "progressed significantly." Observers have put a price tag of \$50m (\$85m) on the business.

Time at least appears to be on the side of the agency as it strives to restructure. The Euroconvertible bond, which the company described yesterday as the "brick wall," is not redeemable at a cost of \$210m until 1993. That may afford the group a window of three-and-a-half years to get its house in order.

US warning on insurance

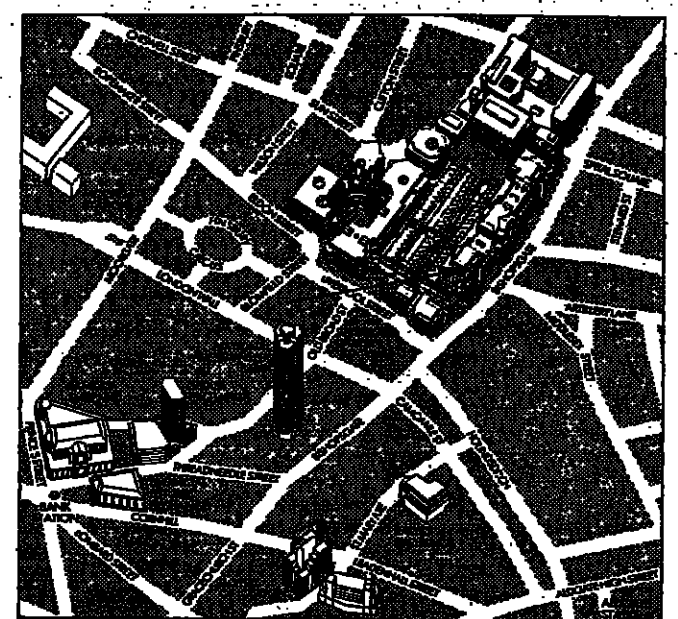
Continued from Page 1

laid on regulatory weaknesses in the US, the report notes: "The process of screening 'names' for good character and financial worth has not included strong background checks or regular financial reports on individual syndicate members, and has not prevented persons such as Carlos Miro from using his status as a Lloyd's 'name' as an advertisement of his respectability."

Mr Miro and his companies are being sued by the Louisiana State Commissioner of Insurance for \$38.5m, while Mr

Miro is the subject of pending investigations by the US Internal Revenue Service and the Immigration Naturalisation Service. The sub-committee has asked the US Attorney General to "investigate and consider prosecution for any possible criminal violations of federal laws."

Failed Promises, Insurance Company Insolvencies: A Report by the Sub-committee on Oversight and Investigations of the Committee on Energy and Commerce of the US House of Representatives.



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WORLD WEATHER

Location	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud
Alaska	15	10	10	Dubrovnik	15	10	10	Alaska	15	10	10	
Algeria	15	10	10	Edinburgh	15	10	10	Alaska	15	10	10	
Argentina	15	10	10	Paris	15	10	10	Alaska	15	10	10	
Australia	15	10	10	Perth	15	10	10	Alaska	15	10	10	
Austria	15	10	10	Prague	15	10	10	Alaska	15	10	10	
Bahamas	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Bermuda	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Bhutan	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Dominican	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Guinea-Bissau	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Haiti	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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India	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Iran	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Italy	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Japan	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Laos	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Lebanon	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Lesotho	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Liberia	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Lithuania	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Luxembourg	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Madagascar	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Mali	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Maldives	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Malta	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
Mauritania	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	
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Niger	15	10	10	Rangoon	15	10	10	Alaska	15	10	10	

Lozell
for quality homes

FINANCIAL TIMES COMPANIES & MARKETS

Monday February 26 1990

Lozell
for urban renewal

INSIDE

Moving philosophy

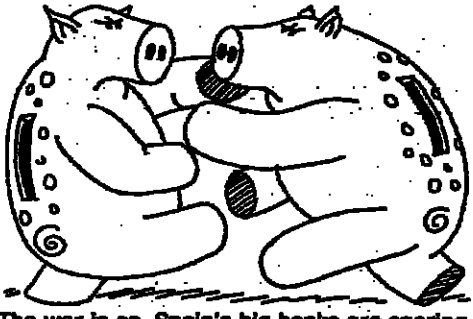


It is a well-known, long story, the seven years between the formation of UAP, the largest insurance company in France, and its stock market introduction last February, original investors - the majority of whom were company employees - saw the value of their initial stake rise about 100-fold. But the man who presided over the transformation of UAP is retiring. David Cowen talks to Sir Peter Thompson (left) about his unique management philosophy. Page 20

Rethinking home remedies

Things are not going well for the American industrial policy lobby. It has failed to persuade the Bush Administration that the competitive ill of US industries can be cured by a dose of dirigisme laced with lavish government subsidies. Now, one of the movement's leading lights has issued what amounts to a public recantation. Guy de Jonquieres reports. Page 34

Banks battle for interest



The war is on, Spain's big banks are sparing no expense in the guerra de los pasivos, or deposits war. Big colour inserts in the Sunday newspapers herald the latest offensive by Banco Espanol de Credito as it begins paying up to 15 per cent interest on current accounts. Banesto's new account finally puts paid to the long-standing agreement between Spanish banks not to attack each other by breaking their informal interest rate cartel. Page 25

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UAP opens its doors to foreign investment

George Graham reports on a landmark rights issue

Today Union des Assurances de Paris (UAP) is launching the largest rights issue in the Paris stock exchange since 1985. Jean Peyrelevalde, UAP chairman, made his reputation as one of the architects of nationalisation in the first socialist government in 1981-83, but he is now presiding over what has been seen by many as at least a partial privatisation.

France's largest insurance company is tapping the capital markets for FF5.57bn (\$1.2bn) as part of a capital increase totalling FF10.5bn.

UAP's haste is barely concealed. The opening of the offer coincides with the application of new insurance legislation, which, besides clearing up the French insurance code, for the first time releases the laws controlling the ownership of shares in state-controlled insurance companies.

Whereas other state-owned companies have been allowed to issue only non-voting certificates of investment, insurance companies have always had a small float of shares, originally issued to employees. These shares could, until today, only be bought by individual French investors and a handful of specified institutions.

By organising a FF2bn international tranche for its equity offering, UAP is helping to avoid an unseemly rush by foreign investors to build up their insurance lines, now that this is authorised.

Launched on Friday, the same day that Renault announced its plans to swap share stakes with Volvo, UAP's FF5.57bn share offer seemed to mark the final confirmation that privatisation, albeit partial and disguised, was back on the agenda for the socialist government.

The motives of UAP's new issue, however, are very different to those that inspired the privatisations carried out by Mr Edouard Balladur when he was finance minister from 1986 to 1988. Not only does the current Government intend to stay firmly in control of UAP, it also has a firm, if not always unanimous, idea of the role it wants the insurance group to play in the development of the French economy.

retained a strong sense of the French national interest, even though he has also proved his readiness to say no to the Government when the interests of his company require it.

In launching his company's capital increase on Friday, however, he laid all the emphasis on UAP's role as an insurer.

"We are insurers. We do not by any means have the intention of becoming a financial conglomerate. We want to be a universal insurer, present in all segments of the insurance business and present internationally, especially in Europe," Mr Peyrelevalde said.

UAP commands about 12 per cent of the French insurance market, but its share in Europe is only 1.5 per cent. Mr Peyrelevalde's goal is to double that European market share to equal Allianz, the West German market leader.

The group has already undertaken a series of acquisitions which have taken it some way down the road towards this goal. In the first place, it has taken outright control of several small and medium-sized companies,

such as Allsecur in Italy and Gess, the Spanish assistance and emergency services group. The purchase of Gess will place UAP second in the world in the assistance sector, behind Europ Assistance.

It also merged its reinsurance subsidiary last year with Scor, the leading French reinsurance company, and now holds 40 per cent of this company.

But the keystone for UAP's future development is the sequence of minority stakes it has built up in some of Europe's largest insurance groups. In 1987, it took 31.88 per cent in Royale Belge, the second largest Belgian insurer. In 1988, it acquired 19.2 per cent of the UK's Sun Life, a stake increased at the end of 1989

to 25 per cent; UAP now has a crossed option agreement with Transatlantic, the group headed by Mr Donald Gordon which has 29 per cent of Sun Life.

The largest of UAP's deals took place in December, when it agreed to pay FF14.4bn for a consolidated stake of 34 per cent in Groupe Victoire, the insurer which had just been taken over by Compagnie Financière de Suez, the financial conglomerate, in France's largest-ever takeover battle.

Besides Victoire itself, an asset-rich French insurer, the stake gives UAP an interest in Colonia/Nordstern, the number two in West Germany behind Allianz, as well as the smaller Dutch insurer Nieuwe Rotter-

dam. The deal also links it with Baltica of Denmark and Dai-ichi Mutual Life of Japan.

Suez remains the controlling shareholder, and has said it plans to keep a 50 per cent consolidated stake in all circumstances, but UAP is clearly in a very strong position at the centre of this web of holdings.

Mr Peyrelevalde said on Friday that he had no plans for more operations of the same size as the Victoire deal, but that UAP was still interested in small to medium-sized operations, worth perhaps FF1bn or FF2bn, in every sector of the insurance business. In any case, he has already put into place the building blocks which could create an empire fit to compete with Allianz.



Jean Peyrelevalde is presiding over what appears to be at least a partial privatisation

Problem: How to be boring

Things have come to a pretty pass when a senior public official cannot rely on being boring when he intends to be. It is a racing certainty that Mr Alan Greenspan travelled the 20 blocks from the Federal Reserve to Capital Hill last Tuesday intending a kind of monetary lullaby. Yet after a restatement of familiar stuff on Tuesday, he saw a mini-collapse of the Tokyo market on Wednesday, and by Thursday he was using his second Congressional appearance to disown some of the things he had not actually said on his first visit.

Consider the background. Drexel Burnham had collapsed only a few days earlier, and although the market professionals took this news with a knowing shrug, small and foreign investors might be nervous. Since all the doom scenarios for the US economy have defined the final, deadly threat as a "run" on the dollar, if it is not a risk Mr Greenspan would have courted.

Nor did he. He said nothing to suggest any change in US policy, pointing out that the recent revival in car sales and house building had allayed fears of a recession. He explained that the January inflation figures would look awful without meaning much. He also pointed out that interest rates are set internationally, and that German rates are setting the tone.

Not a word of this can have surprised anyone who takes an interest in such matters. Then

came Tokyo, and a lot more anecdotal statements, which can be summed up as: "Anything I said two days ago to suggest that the glass might be half empty should be taken to imply that it might be half full."

One might say that he did succeed in being boring at the end, but it took two attempts.

And yet, when you look at the evidence, the underlying mood appears quite robust. The fall in Tokyo was not the start of any chain reaction, but well contained. That suggests that the problem is one of Japanese rather than of general confidence. Further, Wall Street must believe the chairman's misreported gloom with much the same calm as it had earlier figures and surveys billed in advance as key market numbers. Most impressive, though, is the amount of gloomy talk now to be heard. Market comment is so generally bleak that a technician must believe gloom is fully discounted, and that prices can only go up.

Enough of this line of thought. If you are already a contrarian, you have no doubt identified a great buying opportunity in the sea leaves. If you are not, the last thing you want to do is to convert you. What is possibly more interesting, and certainly more unusual, is a disagreement between various analysts about



the economic fundamentals, which are usually fairly non-controversial, rather than the meaning of the market charts. The disputed questions nearly all concern the D-Mark. Will the prospect of German unity raise German inflation? Will it drive the D-Mark up in exchange markets, or depress it? Will Germany's European partners try to keep station with a D-Mark that is on the move internationally? Would such a monetary convoy be a wise manoeuvre, or a mistake? And if the same questions are asked about Germany's non-European partners in the Group of Seven, are the answers the same, or different?

the risk looks pressing, what happens to the international co-ordination process.

And what is a reader to make of these questions? To start with the apparent contradiction: it is likely, or even possible, that the same development can increase inflation in greater Germany, and yet make its currency stronger? The answer seems to me to be that it could easily happen in theory, but is, in present circumstances, unlikely in practice.

This is not to agree with the European high-inflation, weak D-Mark theorem, but to reverse it: it looks likely that renunciation will lead to a strong market, and low German inflation. This is because the process seems likely to produce, though for very different reasons, a pattern similar to the Reagan experience: inflows of capital driving up the currency, immigrant labour holding down domestic costs.

Under Reagan, the capital market inflows were attracted by high interest rates, as the Fed struggled to offset the impact of a huge fiscal expansion; in Germany, it is the promise of commercial profit which will attract both financial markets and real capital inflows. This suggests that the Bundesbank will not be compelled to maintain high relative interest rates.

Meanwhile, the impact of

cheap labour should reduce cost pressures be enough to ensure that quite normal nominal interest rates in nominal terms are high in real terms. High real rates are required, as well as high expected investment returns, to attract all the capital that Germany and its ex-Communist neighbours will demand.

The tension, on this analysis, will arise over the exchange rate: for while low inflation raises any given interest rate in real terms (it increases the real return), it lowers any given nominal exchange rate in real terms (low costs make the German economy more competitive). Yet high capital inflows mean a current account deficit. (If you find the relation between inflation and real exchange and interest rates confusing, you are not alone: try again with a cold towel.)

All this points to an odd conclusion - that Mrs Thatcher may for the first time be right about the EMS. A major adjustment seems to be needed to allow for the change in economic and political circumstances. You do not have to decide whether you are a monetarist like Sir Alan Walters, who probably now argues that we should avoid tying ourselves to an inflation D-Mark, or with this column, which argues that we need to assist a huge switch in our current account with the Germans. All of us can probably agree that for once the markets are probably wiser than our theories, and may even teach us who is right.

Economics Notebook

Fitting Germany into Europe

THE PROSPECT that monetary union between the two Germanys may upstage, even upset, longer-planned monetary union among the Twelve has produced signs of rising panic among some people in Brussels, notably Mr Jacques Delors. The Commission President has warned darkly that 30 years of work on the construction of Europe might be "sidelined."

Others take a more phlegmatic view, notably Mr Henning Christophersen, the Danish commissioner who is in charge of Germany's integration into the European monetary union (now dubbed Genu) on the Community's own plan for economic and monetary union (EMU). He is confident the Community could manage both Genu and EMU.

This study of Genu for EMU - one of several reports which the Commission is to present to EC leaders at their special "German" summit in April - has recovered from a shaky start, when a first paper was leaked to the press. "We have now set up good relations with people in the finance and economics ministries in Bonn, and in the Bundesbank," says Mr Christophersen, adding that "we cannot do this study without very close contact with the competent authorities." Bonn may have little idea about the true picture of the East German economy, but Brussels has even less.

The respective timetables for Genu and EMU will dovetail, Mr Christophersen believes. He reckons Genu will be complete "rather quickly" - within two years, he guesses. EMU is on a longer track. Brussels will give finance ministers a preliminary cost/benefit analysis of EMU next month and foreign ministers a report on institutional reform in April. By June

the Commission will finalise its recommendations on EMU, in plenty of time for the Inter-governmental Conference (IGC) to start at the end of the year. Allow 1991 for the IGC negotiation, 1992 for treaty ratification, and the first half of 1993 for implementing legislation to set up the European Bank, says Mr Christophersen. By the time, therefore, that the Community starts the tricky gear shift from the European Monetary System (EMS) to EMU, about mid-1993, Genu will have been up and running for some time.

Mr Christophersen sees strong mutual interest by Bonn and its EC partners in the success of Genu and EMU. The weaker argument relates to West Germany's interest in EMU. The Bundesbank's reluctance to share its monetary sovereignty with EC partners in an EMU arrangement may, if anything, increase as it becomes the monetary authority for even more territory.

On the other hand, some in Brussels see a silver lining in the speed towards Genu: if politicians can over-ride Mr Karl Otto Pöhl, the Bundesbank president, by accelerating the pace of Genu, they can do the same to him on EMU. Certainly, Mr Christophersen believes that "as the single market becomes more integrated, it will become more important for Germany to have responsible economic policy conducted in other EC states."

What is very clear is the nail-biting interest of Bonn's EC partners in Genu's success. Mr Christophersen believes that Genu will boost West German growth even above its astonishing rate of 5 per cent last year. An extra percentage point expansion in West Germany lifts the whole Community growth rate by half a percentage point. Some

Mediterranean countries are frightened themselves, he says, with "static analyses" claiming that growth in the EC will move north and east; but on any "dynamic" analysis, Genu should be a tide that will carry all EC boats higher, Mr Christophersen claims.

But a botched merger between the two Germanys could severely disrupt the EMS, destabilise its D-Mark anchor and cause a severe drain on the EC budget. The irony, however, is that while Bonn can influence - even determine - the shape of EMU, its Community partners have no formal say how Genu takes place.

Of course, Brussels has its views. The leaked Commission paper concluded that an offer of immediate, full union, perhaps at one D-Mark for one Ostmark, might be "a sign of irreversibility" of the merger, but would irrevocably expose West Germany to any setbacks in East Germany and deprive the latter "of exchange rate changes during the catching-up process." Better, said the paper, to "combine the advantages of exchange rate adjustments with the credibility gains of Bundesbank involvement" and to create a "DM-East", issued and controlled by the Bundesbank, with its parity to the real D-Mark appreciating as East Germany becomes as productive as West Germany.

Mr Christophersen says he trusts the Bundesbank - "a very skilled central bank" - to find the right formula for Genu. But in the absence of EMU treaty obligations, the West German authorities are legally free to do whatever they want. No wonder there is a sense of panic as well as plegma in Brussels.

David Buchan

THIS WEEK

AS FAR as economic indicators go, Wednesday's trade figures are set to hog the limelight this week. But neither the bond nor equity markets are focused on them.

They are anticipating that the slew of economic indicators from Japan and West German consumer price figures - expected today or tomorrow - will provide much-needed clues about prevailing global uncertainty surrounding inflation and interest rates.

German price data has been encouraging so far. The stronger D-Mark and weaker commodity prices have managed to hold down import prices, while money supply growth targets have been met.

The markets are also hoping for some resolution of the public squabble between the Japanese Finance Ministry and the Bank of Japan. This is weakening the Yen and doing nothing to settle the quavering Japanese equity market, which saw two big falls last week.

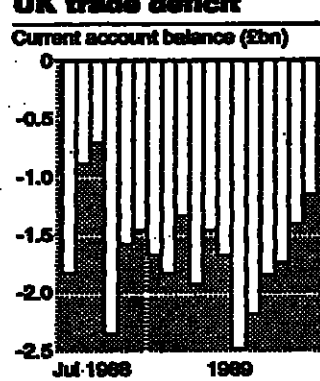
In the UK, fears about global inflation are also building up, and worries about currency unification in the Germanys persist. Nevertheless, the current account deficit will dominate trading floors.

The trade deficit is expected to continue to shrink - as it has done for the past five months - as sterling strengthens and manufacturers find overseas markets for their goods. But some are now suggesting that export volumes are too good to be true, although higher mortgage rates will help depress home consumer spending.

Analysts are slipping out the sharp improvement in the non-oil trade deficit, and the volume of non-oil exports, which rose 15.1 per cent between the fourth quarters of 1988 and 1989. The invisible surplus, however, has deteriorated over the past year due to growing interest payments on the Government's borrowing.

Tomorrow's inflation figures for France are expected to

UK trade deficit



show 0.4 per cent growth on December's and 3.5 per cent year-on-year. Inflation would be stronger but for two factors - falling primary material prices, and the strong French franc. Food prices also saw an unseasonal fall in January.

Other notable events and statistics, with consensus forecast figures from MMS International, the financial research company, in brackets, include: Tomorrow: US advance report on durable goods for January (minus 2.5 per cent). Merchandise trade, fourth quarter. Japan, personal income for December, personal consumption for December, retail sales for January, industrial production for January. France, consumer price index, final, January.

Wednesday: UK new vehicle registrations, US GNP fourth quarter preliminary (0.4 per cent), agricultural prices. Two-year Treasury Note auction. Australia, net and gross foreign debt figures. Japan, trade balance.

Thursday: US construction expenditure for January, personal income for January (0.6 per cent), Unemployment Claims, M1 for week ending February 19. Australia, current account.

Friday: UK Official Reserves (fell \$197 in January). US Leading Indicators for January, new home sales. Japan, trade balance.

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Uneasy calm replaces volatility

SOME SEMBLANCE of composure returned to US credit markets by the end of last week following their ungainly tumble on the first day of trading after the President's Day long weekend.

Although the domestic US picture looks quiet enough for this week, Wall Street traders and investors will remain edgy about policy abroad.

The row in Tokyo over Japanese monetary policy and concern over the economic impact of German unity will continue to reverberate around the world.

Both worries, coupled with some initial confusion over the testimony to Congress of Mr Alan Greenspan, the Federal Reserve chairman, wreaked havoc with the markets last Tuesday.

The price of the Treasury's benchmark 30-year bond dropped 2 1/2 points on the day, the biggest fall in six months. The yield jumped to 8.66 per cent, its highest level since last May.

Mr Greenspan said the US economy was picking up a little steam and thus it was increasingly unlikely to slip into a recession.

Coupled with his comment that inflation remained persistently high, the markets assumed no further easing of monetary conditions was in sight. Worse, the Fed might even tighten if inflation remained sticky.

Because few investors have any firm conviction of where credit markets are heading, they have been quick to sell in recent weeks.

The volatility was evident on Tuesday. Mr Greenspan must have been a little unhappy about the market response to events at home and abroad as his tone was slightly different when he returned to Congress on Thursday to give more testimony.

Day two had "quite a different ring" from day one, said Griggs and Santow, a New York firm of money market analysts. The substance was similar but Mr Greenspan chose to emphasise different points.

The markets thought he was more even-handed and less bearish. In spite of the 1.1 per cent jump in the consumer price index for January, announced the previous day, he argued inflation was not a

pressing problem. Not all analysts agree. Mr Robert Brusca, Nikko's chief New York economist, says "the Fed's own charts on inflation... show adverse trends."

Producer price inflation has advanced steadily since 1986. Consumer price inflation looks comfortable over the past three years but the core goods component has accelerated sharply in the past few months.

"The Fed is not clearly making the inflation progress it requires," Mr Brusca says. Griggs and Santow says the Fed seems to acknowledge this, judging by a "small change in policy thinking" evident in Mr Greenspan's testimony.

Whereas the Fed had indicated its desired rate of real economic growth was 2 to 2 1/2 per cent, it would now seem prepared to let it fall to at least 1 1/2 per cent before easing interest rates.

Its willingness to skirt even closer to a recession should growth falter again must come from its concern about inflation, Griggs and Santow says.

If US investors were growing impatient over minutes analysis of domestic policy issues, they could always wrestle with the big issues abroad rolling the markets. In Japan, the central bank wants to raise interest

rates to curb inflation and support the yen while the Ministry of Finance argues inflation fears are exaggerated and that steadily rising interest rates, already the highest in five years, are damaging the markets.

Fear that the Bank of Japan would soon bump up the discount rate triggered a 6.8 per cent fall in the Tokyo stock market last week, with Wednesday seeing the third biggest ever one-day fall.

The debate was enough to postpone a discount rate rise for now but many US investors expect more than one increase in coming months, which in turn will put pressure on US rates.

Similarly, Wall Street is keeping a watchful eye on West German rates. Last week the yield on 10-year West German bonds briefly breached 9 per cent for the first time in eight years, reflecting widespread certainty that German unity will mean increased money supply, government borrowing and inflation.

Economists at James Capel in London, for example, argue an early move towards German monetary union will force the Bundesbank to raise official interest rates by as much as

200 basis points by the end of this year.

US markets were troubled on Friday by rumours that Bonn was considering an inflation inducing one-for-one exchange rate for East and West German marks.

The Government stoutly denied the report but the fears live on.

Mr Greenspan told Congress that rising rates in Japan and West Germany had helped push up interest rates at home in recent weeks.

This was an inevitable consequence of nations' increasingly inter-dependent economies.

However, he stressed to the Congressmen that this was not a signal that the US was losing control over its economic policy.

The US dependence on foreign capital may be exaggerated, he said. US investors hold more than \$26,000bn of dollar denominated claims on US borrowers but foreign investors own only \$1,500bn.

The US may need a \$150bn fix of foreign capital to plug its current account deficit each year but that is only a fraction of the \$740bn raised by US non-financial borrowers. Thus domestic, not foreign, considerations overwhelmingly set US policy.

"Mr Greenspan threw cold water on the notion that we're not masters of our own destiny and are constrained by events across the ocean," says Mr Brusca of Nikko.

In fact, some foreign investors might have felt the US was something of a safe haven last week compared with Germany and Japan. Certainly they were among eager buyers at the Treasury's auctions of five-year notes on Thursday.

An unusually hefty \$30bn was bid for \$38bn of notes. The auction of two-year notes on Wednesday was more of a domestic affair, with retail buyers attracted strongly by the high yield.

This week brings a raft of US economic data. None of it should be too startling to credit markets but they remain vulnerable to further retreat.

Mr Greenspan has indicated that he sees no need to reduce US rates and the pressures from abroad will continue.

Roderick Oram

UK GILTS

Domestic inflation blues dominate

THE GILT-edged market moved last week, ignoring the continued strong performance of sterling and focusing instead on domestic inflation blues and events in Tokyo and Germany.

Yields for long-dated maturities about 15 years remained above 11 per cent all week, although off their worst, and there appeared little reason to expect dramatic improvement in the near- to medium-term.

With the UK's prospective inflation profile it is difficult to present a case for the gilt-edged market until yields rise. A straw-poll of analysts found inflation expectations have risen significantly this year. Interest rates are not expected to fall much more than a percentage point from the current level of 15 per cent.

Analysts' forecasts are sensitive to next month's Budget with respect to the valorisation of excise duties. Some of the other price rises currently, or due, in the pipeline include the 7 to 8 per cent increase in electricity and gas bills, a average 12 per cent climb in water prices, a higher than expected poll tax, and a substantial advance in local authority rents.

They are now looking for a peak in the recorded rate of retail price inflation of about 6.5 per cent in April. This could be followed by a further rise to a level below 9 per cent

in August, before coming down to 7 per cent in the fourth quarter.

Figures out last week also raised doubts about the extent of the slowdown. The 0.6 per cent increase in gross domestic product in the fourth quarter was stronger than expected; the decline in stocks less than expected.

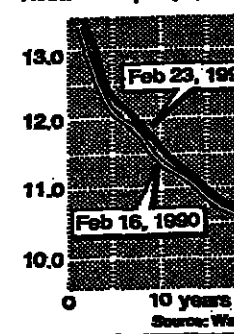
The monetary statistics contained little by way of encouraging news. Annual M0 growth, adjusted for erratically low bankers' balances, was around 6.5 per cent. The indications for February are that monetary growth is still above 6 per cent. Bank and building society lending was superficially encouraging but was in line with the past six months.

The Bank of England may be dismissive of M0 but as far as the Treasury seems concerned it is the best monetary indicator policy makers have. The credibility of the Government's medium-term financial strategy would be undermined if the Treasury does not lower the target growth range of M0 to between 0 and 4 per cent for 1990/91. The indications are that it will, although it may not attain it until this time next year.

THE APPEARANCE of a water company at the long and of the Bank's buying base of gilts did not help sentiment in the gilts

UK gilts yields

Rebased at par (%)



Source: Watling Securities

issuance will be deferred now that long yields have gone above 10 to 10.5 per cent.

In any event, there would be few willing to say long gilt yields will get below 10 per cent again this year. If the UK water companies - which were reportedly looking only to issue £750m of debt this year - come to market they will do so knowing they could have done better in January.

THE GILTS market may not be attractive to domestic institutions currently, but foreigners have done quite well. According to Nomura, in local currency terms the gilt market has been the best performing of the leading markets since the beginning of the year. Added to that, there has been a 4 per cent appreciation of sterling.

The trade deficit is on an improving trend and domestic inflation concerns mean that short-term interest rates will remain high.

Nomura expects gilts to come back in favour to Japanese investors who took profits earlier in the year.

Japanese personal financial assets are increasing by more than ¥50,000bn (£210bn). Nomura speculates even a tiny proportion allocated to gilts should ensure gilt out-performance over the coming year.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US MONEY MARKET RATES (%)		US BOND PRICES AND YIELDS (%)		NRI TOKYO BOND INDEX	
	12-month		12-month		12-month
3-month Treasury bill	8.25	100.00	100.00	100.00	100.00
6-month Treasury bill	8.25	100.00	100.00	100.00	100.00
12-month Treasury bill	8.25	100.00	100.00	100.00	100.00
3-month Treasury note	8.25	100.00	100.00	100.00	100.00
6-month Treasury note	8.25	100.00	100.00	100.00	100.00
12-month Treasury note	8.25	100.00	100.00	100.00	100.00
3-month Treasury bond	8.25	100.00	100.00	100.00	100.00
6-month Treasury bond	8.25	100.00	100.00	100.00	100.00
12-month Treasury bond	8.25	100.00	100.00	100.00	100.00
3-month Treasury futures	8.25	100.00	100.00	100.00	100.00
6-month Treasury futures	8.25	100.00	100.00	100.00	100.00
12-month Treasury futures	8.25	100.00	100.00	100.00	100.00
3-month Treasury swaps	8.25	100.00	100.00	100.00	100.00
6-month Treasury swaps	8.25	100.00	100.00	100.00	100.00
12-month Treasury swaps	8.25	100.00	100.00	100.00	100.00
3-month Treasury options	8.25	100.00	100.00	100.00	100.00
6-month Treasury options	8.25	100.00	100.00	100.00	100.00
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12-month Treasury futures options	8.25	100.00	100.00	100.00	100.00
3-month Treasury swaps options	8.25	100.00	100.00		

INTERNATIONAL COMPANIES AND FINANCE

Spanish banks start deposits war

By Peter Bruce in Madrid

A LONG-expected deposits war among Spain's big banks looks set to begin today when Banco Espanol de Credito (Banesto) begins paying interest on current accounts in a challenge to a similar and hugely successful move by Banco Santander last summer.

Big colour inserts by Banesto in Spain's Sunday newspapers yesterday, advertising the arrival of its "Single Account", announced that the multi-use facility would offer interest of up to 13 per cent. Santander, which began its "Super Account" last year at a maximum 11.5 per cent, has just raised this to 12.5 per cent.

Banesto's new account finally puts paid to the long-standing agreement between Spanish banks not to attack each other by breaking their informal interest rate cartel.

Santander's challenge has proved increasingly difficult for the rest of Spain's big banks to ignore. Between August and December last year, Santander's current account deposits grew by

Ptas282bn (\$2.6bn) to Ptas358bn, taking it from fourth to second place behind Banco Bilbao Vizcaya (BBV), the country's biggest bank.

BBV's current deposits, by comparison, grew just Ptas1bn to Ptas784bn. On average, Santander's rivals among the big seven banks managed to increase current deposits by just Ptas37bn.

Most of these rivals have held back so far by convincing themselves that servicing the "super" accounts was simply too expensive. Spanish banks are subject to punishing liquidity reserve ratios (the proportion of their deposits which has to be lodged with the central bank). At one point last year the ratio rose above 18 per cent before falling back last December to 17 per cent.

These reserve obligations, say bankers, make it impossible to offer retail services which would help them compete when European Community banking is liberalised after 1992.

The Bank of Spain, however, has decided to slash the

reserve ratio to just 5 per cent and the draft budget law published last Friday envisages a legal maximum of 7 per cent. That cut was to have been made last week but a last-minute technical problem apparently arose on Friday, and a formal cut is expected this week.

Bankers have given the measure a mixed welcome. At the moment just over half the reserves lodged with the Bank of Spain - 9.5 per cent - earns 7.5 per cent interest. The other 7.5 per cent is deposited interest-free. When the ratio is cut to 5 per cent, no interest will be paid.

Even worse for the banks, they are being forced to spend the money theoretically freed by the cut in required reserves on certificates of deposit (CDs), to be issued by the Bank of Spain. Probably reflecting concern at the central bank about the effect on money supply of all the freed reserves coming into play immediately, the CDs are to mature at the turn of the century and offer interest of only 5 per cent.

In addition, the authorities are still forcing the banks to limit growth of their lending this year to about 10 per cent. Bankers warn that this, combined with the low interest to be offered on their freed reserves, will damage 1990 profit and loss accounts.

To an extent, the banks are still trapped. But the key to Banesto's new account - and other big banks will almost certainly follow it - is that any new deposits will be subject to the 5 per cent reserve requirement only. Any new customers are going to cost banks only a fraction of what they have until now.

In addition, the CDs about to be issued in lieu of required reserve by the central bank will be tradeable. And although they will pay only 5 per cent - in recent weeks, rates on some public debt instruments have risen to more than 14 per cent - many banks may find it preferable to get rid of them and concentrate on doing business in the coming, less fettered, environment.

Gardini set to take control of Enimont

By John Wyles in Rome

MR RAUL Gardini, head of Italy's Ferruzzi-Montedison group, looks set this week to take control of Enimont, a holding company which controls the state-owned energy company, he launched just over a year ago.

Mr Gardini appears to have the necessary votes to assure the election of two friendly directors at the second company shareholders' meeting.

Then, a simple majority will suffice, whereas a 65 per cent majority for the nominees will be needed at the first meeting tomorrow. ENI's attempt to have the assembly postponed was rejected by a Milanese judge on Saturday.

One of Enimont's newly-declared owners, with 4 per cent of its stock, is controlled by Mr Jean-Marc Vernes, who is president of Ferruzzi-controlled Béghin-Say and a board member of Montedison.

The Government, which has endlessly intoned that Enimont must remain in public hands, is both astounded and divided by Mr Gardini's audacity. Mr Claudio Martelli, the Deputy Prime Minister, says that Mr Gardini's move is "a serious challenge to the public sector".

Although he may control seven of the 12 board seats at Enimont, Mr Gardini will not have a strategic grasp of the company as its statutes require two-thirds agreement for all significant decisions affecting investments and product development.

Nevertheless, he was in a triumphant mood at a meeting in Padua on Saturday of about 1,500 Enimont managers. "I am now in charge of Italian chemicals," he declared, "and those who do not like it can leave."

Gencor to merge assets left by Mobil divestment

By Jim Jones in Johannesburg

GENCOR, South Africa's second largest mining house, is to merge the oil refining and distribution networks acquired when Mobil, the US oil giant, divested its South African oil and gas interests last year.

The intention is that Trek Petroleum, a Gencor subsidiary operating a nationwide chain of filling stations, will issue shares to acquire Mobil. It will also pay R30m for Gencor's 30 per cent interest in the state-owned Mossas offshore gas project and R24.8m for the house's participation agreements with state-owned Soekor oil exploration company.

Essentially the transaction is a reverse takeover of Trek, to be renamed Engen, allowing Gencor to obtain a Johannesburg Stock Exchange listing for its oil interests. The group has not disclosed any operating details of either Mobil or Trek as the Petroleum Products Act bars disclosure in South Africa.

However, in round figures the group estimates Engen's annual turnover will be more than R5bn (\$1.96bn) and its taxed profit in the region of R200m. After the merger the company will operate about 1,500 filling stations. Last April

Gencor paid R800m (then equivalent to \$150m) for Mobil's South African interests when the US oil company divested.

At the time the American parent company said it was divesting because recent US legislation removed double taxation shields. Mobil owns a chain of about 1,000 filling stations in South Africa and a refinery at Durban.

The refinery's capacity is not disclosed, but in round figures it is believed to be producing about 60,000 barrels of liquid fuel a day. Its capacity at one stage was estimated at 100,000 barrels but Mr Bernard Smith, the Engen chairman, says most of South Africa's oil refineries have been cannibalised and that their capacities are now less than before.

Engen is at present evaluating an approximately R500m project to upgrade and expand the Durban refinery. All of the oil and gas companies operating in South Africa receive large but undisclosed effective subsidies as petrol and diesel prices are fixed at artificially high levels needed to ensure the costly Sasol synthetic fuels producer remains profitable.

The effect of the high-guaranteed prices has been to persuade international oil majors to continue their South African operations, even though the advent of Sasol resulted in conventional refineries becoming under-utilised.

Apart from its R54.8m cash payment for Gencor's Mossas and Soekor participation interests, Trek will issue 89.8m new shares to Gencor. This will lift Trek's total issued shares to 110m, of which Gencor will own 84.4 per cent directly and another 9.6 per cent indirectly through its Genbel subsidiary.

In 1992 Engen has to decide if it is to invest a further R1bn in Mossas for its share of the gas company's equity funding. The intention is that Mossas's shareholders will provide 40 per cent of the company's approximately R8bn capital cost, the Government will match that with a soft loan and the remaining 20 per cent will be financed from commercial loans.

Independent analysts have estimated the cost of producing liquid fuels from Mossas's gas at about four times that from crude oil. They add Mossas will remain dependent on subsidies if it is to be profitable.

Shipping group earnings double to Nkr236m

By Karen Fossell in Oslo

LABOREMUS, the Norwegian shipping group, announced on Friday a near doubling of profits, before extraordinary items, to Nkr236.5m (\$36.5m) in 1989 from Nkr121.8m in 1988 and that it would pass its dividend payment for 1989.

The board recommended that profits for 1989 be used to strengthen further the group's capital base, in light of recent years' expansion and the emergence of offshore activities.

Laboremus said that the figure for 1989 comprises net operating profits, after depreciation, of Nkr125.3m against Nkr72.3m in 1988, gains from sales of ships of Nkr147.9m in 1989 versus Nkr62.2m a year earlier, and an increase of net financial costs to Nkr37.7m from Nkr12.7m.

Extraordinary profits declined to Nkr15.5m in 1989 from Nkr20.7m. Net profits, before year-end allocations, reached Nkr251.2m against a previous Nkr139.2m.

Aker and Banesto row nears end

By Peter Bruce

AKER, the Norwegian cement group, and Banco Espanol de Credito (Banesto), one of Spain's big commercial banks, appear to be close to ending their bitter dispute over control of Spain's third-largest cement group, Valenciana de Cementos.

Banesto said at the weekend that the two sides were negotiating over a division of the group.

However, it declined to con-

firm publicly reports that an agreement had already been signed.

Valenciana de Cementos was to have been one of the cornerstones of a new industrial group being established by Banesto. But these hopes were dashed late last November when Aker, helped by a big family shareholder in Valenciana, took over 24 per cent of the concern.

It is believed that Aker and

the Serratos family are to take full control of the parent company, Valenciana, together with eight other subsidiaries, including Cementos del Mar and Cementos del Atlantico, taking its cement-producing capacity to 8m tonnes a year.

Banesto, under this provisional arrangement, would take over about 4.7m tonnes of capacity, including Sanson, Portland Iberica and Portland Morata.

Auditors quit PepsiCo account

By Roderick Oram in New York

ERNST & Young has resigned as auditor of PepsiCo following an ultimatum from Coca-Cola that the newly-merged accounting firm choose which of the two soft drink companies it would serve.

The conflict is the largest that has arisen so far following last year's wave of mergers among many of the world's leading accountancy firms. Ernst & Whinney, Coca-Cola's

auditor, had combined with Arthur Young, PepsiCo's auditor. Coca-Cola denied it had put pressure on Ernst & Young, saying the decision to drop PepsiCo was the firm's own.

Ernst & Whinney has served Coca-Cola for more than 60 years, booking some \$14m in annual fees in recent years, analysts believe. Arthur Young had audited PepsiCo for 25

years, generating some \$9m in fees last year.

The decision to drop PepsiCo will have minimal impact on Ernst & Young's finances. Its annual revenues from accounting, consultancy and other professional services is about \$4.5bn a year. But industry analysts said the move indicated that former Ernst & Whinney partners had the upper hand in the new firm.

CONTRACTS & TENDERS

CHILE - PUBLIC TENDER
PORPHYRY COPPER
MOLYBDENUM OREBODY
Rosario de Rengo

Location

115 kms south of Santiago by highway, plus 45 kms east of the city of Rengo by gravel road. 2,500 masl, 40 kms south of E1 Teniente Porphyry Copper Molybdenum Orebody (Codeco Chile). The Port of San Antonio is 180 kms by highway.

Characteristics

"Porphyry Copper Molybdenum Orebody. Age less than 10 million years." (Geologic Report of Chilean & Japan Governments Sernagimin and Metal Mining Agency of Japan 1983-1984).

Mineralization covers 4.4 kms NS and 1.3 kms EW. Mining rights protect the whole or a body, thus far, Reserves reach 23.5 millions tons, and REsources from part of the potassic and phillito zones are estimated to be 540 million tons.

Rosario's brecciated ores allow granuletric preconcentration followed by gravity preconcentration before feeding the mills.

Investments included in tender: water rights for hydroelectric generation, La Pandina Hydroelectric Power Plant Supply Contract, prepared Open Pit for 10,000 M/day extraction, Worker Camps, Roads and other Facilities.

Tender Date and Documents

Tender closing date will be April 27 at 12.00 hrs Chilean Local Time. Offers should be presented in sealed envelopes, which will be opened by a Notary in the offices of Samuel Lira Ovalle (Lawyer), Agustinas 1357 5 Floor (Tel 726254; Fax 711039; Telex 340501 PATSIL), who has been appointed by the owners to administer the tender. Tender documents are available at above mentioned address at a cost of Chilean pesos 600,000 including VAT. Participation in the tender is only permitted to purchasers of official tender documents.

REPUBLIC OF GHANA
VOLTA RIVER AUTHORITY
AKOSOMBO GENERATING STATION
RETROFIT PROJECT
INVITATION TO TENDER

The Volta River Authority (VRA) is arranging funding in various currencies towards the implementation of the Akosombo Generating Station Retrofit Project and together with its own financing, intends to apply the proceeds to eligible payments under this project.

VRA invites Tenders from suitably qualified and experienced firms for the following Contracts.

Contract AK-2 - Turbines

The scope consists of:

- modification, repair welding of runners and retrofit of 6 turbines.
- removal of existing governors and installation of 6 governors under supervision of the manufacturer
- installation of turbine parts (supplied by VRA) and retrofit of the 6 turbines and 6 governor hydraulic power systems
- testing and placing the turbines and governors into successful operation.

Contract AK-3 - Governors

The scope consists of the design, manufacture, delivery, and supervision of installation and commissioning of 6 complete electric hydraulic governors, including electronic controls, oil distributing valve, restoring system, speed sensing and mechanical shutdown devices and spare parts.

Contract AK-5 - Mechanical and Electrical Services

The scope consists of the design, manufacture, delivery and installation of the following:

Mechanical
Modification and retrofit of the powerhouse ventilation, fire protection systems, generator cooling water system, drainage and unwatering system, compressed air systems and standby diesel generator

Electrical
Modification and retrofit of the 415-V ac systems, 120-V dc systems, data logging, events recording, unit controls, protection and miscellaneous auxiliary systems.

It is anticipated that Tender Documents will be available for the above Contracts during April 1990, with Tenders expected to be received in July 1990

A pre-tender meeting will be held in Akosombo during May 1990 and it will be mandatory for all companies who intend to submit Tenders for Contract AK-2 or AK-5 to attend this meeting.

Companies interested in tendering for one or all of the above Contracts may obtain Tender Documents by submitting a written request accompanied by a certified cheque in the amount of US \$200 for each Contract to:

Project Manager
Akosombo GS Retrofit Project
Acres International Limited
5259 Dorchester Road
Niagara Falls, Ontario, Canada
L2E 6W1
Telephone: (416) 374-5200
Telex: 021-615107

With copy of request to:
Resident Manager
Akosombo GS Retrofit Project
Volta River Authority
P.O. Box M-77
Accra, Ghana
Telephone No. 664941
Telex No. 2022

Tenderers will not be prequalified. However, evaluation of the Tenders will include an assessment of Tenderers' experience and technical and financial competence to undertake the Contracts. The criteria for this post-qualification procedure will be included in the Tender Document.

Other Contracts required for the project will be treated separately.

INVITATION No. T-10/82

The Peoples Democratic Republic of Ethiopia has received a loan from the American Development Fund in various currencies towards the cost of Road Maintenance Equipment and spare parts and it is intended that the proceeds of the loan will be applied to eligible payments under the contracts for the supply of equipment and spare parts.

The Ethiopian Transport Construction Authority now invites sealed bids from eligible bidders for the supply of Road Maintenance equipment and spare parts. Only Suppliers from member countries of the African Development Bank and African Development Fund state participants are eligible to bid. All Goods and ancillary services must have their origin from member countries of ADB and ADF State participants.

Interested eligible bidders may obtain further information from one set of bidding documents to be collected during office hours from the Procurement Office Room No. 106 upon payment of non-refundable Birr 50.00 per set. Each request for documents shall be accompanied by the Official name and address of the bidder.

The closing date for submission of bids shall be 10:00 hours local time on May 9, 1990 at which time the opening will take place in the Conference Room 4th floor of the Ethiopian Transport Construction Authority Headquarters Building.

The Ethiopian Transport Construction Authority reserves the right to reject any or all bids that are not in conformity with all conditions and specifications mentioned in the tender.

ETHIOPIAN TRANSPORT CONSTRUCTION AUTHORITY

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Company Name	Unit Price	NAV	Yield	Dividend	Notes
National Financial Management Corp PLC	1.12	1.12	4.5%	5.0p	
Providence Capital Life Ass. Co Ltd	1.05	1.05	3.8%	4.0p	
Scottish Life Assurance Co Ltd	1.08	1.08	4.2%	4.5p	
Standard Life Assurance Co Ltd	1.10	1.10	4.3%	4.6p	
Sea Alliance Group	1.15	1.15	4.8%	5.2p	
Tembridge Wells Equitable	1.18	1.18	5.0%	5.5p	
Sharp (Albert) & Co.	1.20	1.20	5.2%	5.8p	
Stirling Fund Managers Limited	1.22	1.22	5.4%	6.0p	
South West Investment Management	1.25	1.25	5.6%	6.2p	
Telford Investment Mgmt. Ltd.	1.28	1.28	5.8%	6.5p	
Trinity Law & Co.	1.30	1.30	6.0%	6.8p	
University Medical General Ltd.	1.32	1.32	6.2%	7.0p	
J. B. Ward Financial Services Ltd.	1.35	1.35	6.4%	7.2p	
Weston Asset Management Ltd.	1.38	1.38	6.6%	7.5p	
Guernsey Investment Managers (Guernsey) Ltd.	1.40	1.40	6.8%	7.8p	
Guernsey International Fund Mgmts Ltd.	1.42	1.42	7.0%	8.0p	
Guernsey Investment Managers (Guernsey) Ltd.	1.45	1.45	7.2%	8.2p	
Guernsey International Fund Mgmts Ltd.	1.48	1.48	7.4%	8.5p	
Guernsey Investment Managers (Guernsey) Ltd.	1.50	1.50	7.6%	8.8p	
Guernsey International Fund Mgmts Ltd.	1.52	1.52	7.8%	9.0p	
Guernsey Investment Managers (Guernsey) Ltd.	1.55	1.55	8.0%	9.2p	
Guernsey International Fund Mgmts Ltd.	1.58	1.58	8.2%	9.5p	
Guernsey Investment Managers (Guernsey) Ltd.	1.60	1.60	8.4%	9.8p	
Guernsey International Fund Mgmts Ltd.	1.62	1.62	8.6%	10.0p	
Guernsey Investment Managers (Guernsey) Ltd.	1.65	1.65	8.8%	10.2p	
Guernsey International Fund Mgmts Ltd.	1.68	1.68	9.0%	10.5p	
Guernsey Investment Managers (Guernsey) Ltd.	1.70	1.70	9.2%	10.8p	
Guernsey International Fund Mgmts Ltd.	1.72	1.72	9.4%	11.0p	
Guernsey Investment Managers (Guernsey) Ltd.	1.75	1.75	9.6%	11.2p	
Guernsey International Fund Mgmts Ltd.	1.78	1.78	9.8%	11.5p	
Guernsey Investment Managers (Guernsey) Ltd.	1.80	1.80	10.0%	11.8p	
Guernsey International Fund Mgmts Ltd.	1.82	1.82	10.2%	12.0p	
Guernsey Investment Managers (Guernsey) Ltd.	1.85	1.85	10.4%	12.2p	
Guernsey International Fund Mgmts Ltd.	1.88	1.88	10.6%	12.5p	
Guernsey Investment Managers (Guernsey) Ltd.	1.90	1.90	10.8%	12.8p	
Guernsey International Fund Mgmts Ltd.	1.92	1.92	11.0%	13.0p	
Guernsey Investment Managers (Guernsey) Ltd.	1.95	1.95	11.2%	13.2p	
Guernsey International Fund Mgmts Ltd.	1.98	1.98	11.4%	13.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.00	2.00	11.6%	13.8p	
Guernsey International Fund Mgmts Ltd.	2.02	2.02	11.8%	14.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.05	2.05	12.0%	14.2p	
Guernsey International Fund Mgmts Ltd.	2.08	2.08	12.2%	14.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.10	2.10	12.4%	14.8p	
Guernsey International Fund Mgmts Ltd.	2.12	2.12	12.6%	15.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.15	2.15	12.8%	15.2p	
Guernsey International Fund Mgmts Ltd.	2.18	2.18	13.0%	15.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.20	2.20	13.2%	15.8p	
Guernsey International Fund Mgmts Ltd.	2.22	2.22	13.4%	16.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.25	2.25	13.6%	16.2p	
Guernsey International Fund Mgmts Ltd.	2.28	2.28	13.8%	16.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.30	2.30	14.0%	16.8p	
Guernsey International Fund Mgmts Ltd.	2.32	2.32	14.2%	17.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.35	2.35	14.4%	17.2p	
Guernsey International Fund Mgmts Ltd.	2.38	2.38	14.6%	17.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.40	2.40	14.8%	17.8p	
Guernsey International Fund Mgmts Ltd.	2.42	2.42	15.0%	18.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.45	2.45	15.2%	18.2p	
Guernsey International Fund Mgmts Ltd.	2.48	2.48	15.4%	18.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.50	2.50	15.6%	18.8p	
Guernsey International Fund Mgmts Ltd.	2.52	2.52	15.8%	19.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.55	2.55	16.0%	19.2p	
Guernsey International Fund Mgmts Ltd.	2.58	2.58	16.2%	19.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.60	2.60	16.4%	19.8p	
Guernsey International Fund Mgmts Ltd.	2.62	2.62	16.6%	20.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.65	2.65	16.8%	20.2p	
Guernsey International Fund Mgmts Ltd.	2.68	2.68	17.0%	20.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.70	2.70	17.2%	20.8p	
Guernsey International Fund Mgmts Ltd.	2.72	2.72	17.4%	21.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.75	2.75	17.6%	21.2p	
Guernsey International Fund Mgmts Ltd.	2.78	2.78	17.8%	21.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.80	2.80	18.0%	21.8p	
Guernsey International Fund Mgmts Ltd.	2.82	2.82	18.2%	22.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.85	2.85	18.4%	22.2p	
Guernsey International Fund Mgmts Ltd.	2.88	2.88	18.6%	22.5p	
Guernsey Investment Managers (Guernsey) Ltd.	2.90	2.90	18.8%	22.8p	
Guernsey International Fund Mgmts Ltd.	2.92	2.92	19.0%	23.0p	
Guernsey Investment Managers (Guernsey) Ltd.	2.95	2.95	19.2%	23.2p	
Guernsey International Fund Mgmts Ltd.	2.98	2.98	19.4%	23.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.00	3.00	19.6%	23.8p	
Guernsey International Fund Mgmts Ltd.	3.02	3.02	19.8%	24.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.05	3.05	20.0%	24.2p	
Guernsey International Fund Mgmts Ltd.	3.08	3.08	20.2%	24.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.10	3.10	20.4%	24.8p	
Guernsey International Fund Mgmts Ltd.	3.12	3.12	20.6%	25.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.15	3.15	20.8%	25.2p	
Guernsey International Fund Mgmts Ltd.	3.18	3.18	21.0%	25.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.20	3.20	21.2%	25.8p	
Guernsey International Fund Mgmts Ltd.	3.22	3.22	21.4%	26.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.25	3.25	21.6%	26.2p	
Guernsey International Fund Mgmts Ltd.	3.28	3.28	21.8%	26.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.30	3.30	22.0%	26.8p	
Guernsey International Fund Mgmts Ltd.	3.32	3.32	22.2%	27.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.35	3.35	22.4%	27.2p	
Guernsey International Fund Mgmts Ltd.	3.38	3.38	22.6%	27.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.40	3.40	22.8%	27.8p	
Guernsey International Fund Mgmts Ltd.	3.42	3.42	23.0%	28.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.45	3.45	23.2%	28.2p	
Guernsey International Fund Mgmts Ltd.	3.48	3.48	23.4%	28.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.50	3.50	23.6%	28.8p	
Guernsey International Fund Mgmts Ltd.	3.52	3.52	23.8%	29.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.55	3.55	24.0%	29.2p	
Guernsey International Fund Mgmts Ltd.	3.58	3.58	24.2%	29.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.60	3.60	24.4%	29.8p	
Guernsey International Fund Mgmts Ltd.	3.62	3.62	24.6%	30.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.65	3.65	24.8%	30.2p	
Guernsey International Fund Mgmts Ltd.	3.68	3.68	25.0%	30.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.70	3.70	25.2%	30.8p	
Guernsey International Fund Mgmts Ltd.	3.72	3.72	25.4%	31.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.75	3.75	25.6%	31.2p	
Guernsey International Fund Mgmts Ltd.	3.78	3.78	25.8%	31.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.80	3.80	26.0%	31.8p	
Guernsey International Fund Mgmts Ltd.	3.82	3.82	26.2%	32.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.85	3.85	26.4%	32.2p	
Guernsey International Fund Mgmts Ltd.	3.88	3.88	26.6%	32.5p	
Guernsey Investment Managers (Guernsey) Ltd.	3.90	3.90	26.8%	32.8p	
Guernsey International Fund Mgmts Ltd.	3.92	3.92	27.0%	33.0p	
Guernsey Investment Managers (Guernsey) Ltd.	3.95	3.95	27.2%	33.2p	
Guernsey International Fund Mgmts Ltd.	3.98	3.98	27.4%	33.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.00	4.00	27.6%	33.8p	
Guernsey International Fund Mgmts Ltd.	4.02	4.02	27.8%	34.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.05	4.05	28.0%	34.2p	
Guernsey International Fund Mgmts Ltd.	4.08	4.08	28.2%	34.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.10	4.10	28.4%	34.8p	
Guernsey International Fund Mgmts Ltd.	4.12	4.12	28.6%	35.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.15	4.15	28.8%	35.2p	
Guernsey International Fund Mgmts Ltd.	4.18	4.18	29.0%	35.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.20	4.20	29.2%	35.8p	
Guernsey International Fund Mgmts Ltd.	4.22	4.22	29.4%	36.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.25	4.25	29.6%	36.2p	
Guernsey International Fund Mgmts Ltd.	4.28	4.28	29.8%	36.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.30	4.30	30.0%	36.8p	
Guernsey International Fund Mgmts Ltd.	4.32	4.32	30.2%	37.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.35	4.35	30.4%	37.2p	
Guernsey International Fund Mgmts Ltd.	4.38	4.38	30.6%	37.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.40	4.40	30.8%	37.8p	
Guernsey International Fund Mgmts Ltd.	4.42	4.42	31.0%	38.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.45	4.45	31.2%	38.2p	
Guernsey International Fund Mgmts Ltd.	4.48	4.48	31.4%	38.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.50	4.50	31.6%	38.8p	
Guernsey International Fund Mgmts Ltd.	4.52	4.52	31.8%	39.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.55	4.55	32.0%	39.2p	
Guernsey International Fund Mgmts Ltd.	4.58	4.58	32.2%	39.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.60	4.60	32.4%	39.8p	
Guernsey International Fund Mgmts Ltd.	4.62	4.62	32.6%	40.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.65	4.65	32.8%	40.2p	
Guernsey International Fund Mgmts Ltd.	4.68	4.68	33.0%	40.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.70	4.70	33.2%	40.8p	
Guernsey International Fund Mgmts Ltd.	4.72	4.72	33.4%	41.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.75	4.75	33.6%	41.2p	
Guernsey International Fund Mgmts Ltd.	4.78	4.78	33.8%	41.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.80	4.80	34.0%	41.8p	
Guernsey International Fund Mgmts Ltd.	4.82	4.82	34.2%	42.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.85	4.85	34.4%	42.2p	
Guernsey International Fund Mgmts Ltd.	4.88	4.88	34.6%	42.5p	
Guernsey Investment Managers (Guernsey) Ltd.	4.90	4.90	34.8%	42.8p	
Guernsey International Fund Mgmts Ltd.	4.92	4.92	35.0%	43.0p	
Guernsey Investment Managers (Guernsey) Ltd.	4.95	4.95	35.2%	43.2p	
Guernsey International Fund Mgmts Ltd.	4.98	4.98	35.4%	43.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.00	5.00	35.6%	43.8p	
Guernsey International Fund Mgmts Ltd.	5.02	5.02	35.8%	44.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.05	5.05	36.0%	44.2p	
Guernsey International Fund Mgmts Ltd.	5.08	5.08	36.2%	44.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.10	5.10	36.4%	44.8p	
Guernsey International Fund Mgmts Ltd.	5.12	5.12	36.6%	45.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.15	5.15	36.8%	45.2p	
Guernsey International Fund Mgmts Ltd.	5.18	5.18	37.0%	45.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.20	5.20	37.2%	45.8p	
Guernsey International Fund Mgmts Ltd.	5.22	5.22	37.4%	46.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.25	5.25	37.6%	46.2p	
Guernsey International Fund Mgmts Ltd.	5.28	5.28	37.8%	46.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.30	5.30	38.0%	46.8p	
Guernsey International Fund Mgmts Ltd.	5.32	5.32	38.2%	47.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.35	5.35	38.4%	47.2p	
Guernsey International Fund Mgmts Ltd.	5.38	5.38	38.6%	47.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.40	5.40	38.8%	47.8p	
Guernsey International Fund Mgmts Ltd.	5.42	5.42	39.0%	48.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.45	5.45	39.2%	48.2p	
Guernsey International Fund Mgmts Ltd.	5.48	5.48	39.4%	48.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.50	5.50	39.6%	48.8p	
Guernsey International Fund Mgmts Ltd.	5.52	5.52	39.8%	49.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.55	5.55	40.0%	49.2p	
Guernsey International Fund Mgmts Ltd.	5.58	5.58	40.2%	49.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.60	5.60	40.4%	49.8p	
Guernsey International Fund Mgmts Ltd.	5.62	5.62	40.6%	50.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.65	5.65	40.8%	50.2p	
Guernsey International Fund Mgmts Ltd.	5.68	5.68	41.0%	50.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.70	5.70	41.2%	50.8p	
Guernsey International Fund Mgmts Ltd.	5.72	5.72	41.4%	51.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.75	5.75	41.6%	51.2p	
Guernsey International Fund Mgmts Ltd.	5.78	5.78	41.8%	51.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.80	5.80	42.0%	51.8p	
Guernsey International Fund Mgmts Ltd.	5.82	5.82	42.2%	52.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.85	5.85	42.4%	52.2p	
Guernsey International Fund Mgmts Ltd.	5.88	5.88	42.6%	52.5p	
Guernsey Investment Managers (Guernsey) Ltd.	5.90	5.90	42.8%	52.8p	
Guernsey International Fund Mgmts Ltd.	5.92	5.92	43.0%	53.0p	
Guernsey Investment Managers (Guernsey) Ltd.	5.95	5.95	43.2%		

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MONEY MARKETS

Market questions D-Mark and yen

WEAK EQUITY markets and fears about the cost of German monetary union encouraged moves into the higher yielding European currencies, such as sterling and the Swiss franc last week. Investors took the view that the sharp fall in share prices in Tokyo and the implications of monetary union between East and West Germany made the yen and

made it clear it does not favour such a move at present. This highlights again the relationship between central banks and governments after recent suggestions that the Bundesbank was forced to back the Bonn policy on monetary union, or risk having its independence challenged.

The process of monetary union was also questioned, following a newspaper report, denied by Bonn, that East German marks would be converted at parity with the D-Mark. The market has assumed that the conversion rate will be set for the mark at only about 160% or perhaps 180% of the value of the D-Mark.

Fears about the added cost of a one for one conversion also contributed to the D-Mark's fall from favour last week. As the mood of uncertainty increased about two usually overlooked factors were looked for higher yields and found the pound and Swiss franc more attractive.

UK clearing bank base lending rate

18 per cent from October 5

D-Mark vulnerable, and it was worth looking for better returns elsewhere.

The apparent discord between the Japanese administration and Bank of Japan over interest rate policy did not help the yen. A rise in the discount rate was expected once the Japanese general election was out of the way, but the Ministry of Finance

£ IN NEW YORK

Feb.23	Close	Previous
5.00	1.7090-1.7100	1.7100-1.7110
1 month	1.7070-1.7080	1.7080-1.7090
3 months	1.7050-1.7060	1.7060-1.7070
12 months	1.6920-1.6930	1.6930-1.6940

Forward premiums and discounts apply to the US dollar

STERLING INDEX

Feb.23	Close	Previous
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3

CURRENCY RATES

Feb.23	Bank	Special	European

CHICAGO

Feb.23	Close	Previous
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3

U.S. TREASURY BILLS

Feb.23	Close	Previous
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3

SWISS FRANC CENTS

Feb.23	Close	Previous
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3

FINLAND MARKS

Feb.23	Close	Previous
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3
100	92.2	92.3

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS

Figure in parentheses shows number of stocks per grouping	US Dollar Index	% change since Dec.29 '89	Pound Sterling Index	% change since Dec.29 '89	Local Currency Index	% change since Dec.29 '89	Gross Div. Yield	1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	141.72	-8.4	122.94	-12.0	-8.4	5.45	143.83	124.37	125.12	126.28
Austria (19)	258.08	-48.0	220.23	-48.2	-1.14	1.14	258.08	220.23	220.23	220.23
Belgium (6)	155.48	-12.4	117.15	-11.7	-14.1	4.78	155.48	117.15	117.15	117.15
Canada (122)	137.87	-8.4	119.81	-11.9	-8.4	3.41	137.87	119.81	120.03	121.67
Denmark (26)	249.22	-2.9	218.46	-2.9	-0.8	1.47	249.22	218.46	218.46	218.46
France (122)	149.49	-12.1	123.39	-12.3	-0.1	2.41	149.49	123.39	123.39	123.39
Finland (28)	142.98	-8.4	124.02	-12.4	-10.0	2.86	142.98	124.02	124.02	124.02
Germany (96)	125.85	-1.7	108.18	-10.8	-0.9	1.28	125.85	108.18	108.18	108.18
Italy (66)	118.27	-1.0	102.61	-10.2	-1.0	4.92	118.27	102.61	102.61	102.61
Japan (48)	189.21	-1.0	168.58	-16.8	-2.4	2.38	189.21	168.58	168.58	168.58
Malaysia (36)	168.24	-14.8	145.95	-14.6	-12.9	0.82	168.24	145.95	145.95	145.95
Netherlands (43)	238.46	-4.1	205.87	-20.6	-4.3	2.14	238.46	205.87	205.87	205.87
New Zealand (18)	132.77	-7.7	115.18	-11.5	-8.7	4.78	132.77	115.18	115.18	115.18
Norway (24)	64.38	-10.7	55.85	-10.7	-10.2	5.98	64.38	55.85	55.85	55.85
South Africa (60)	205.03	-4.3	177.87	-17.8	-7.7	1.76	205.03	177.87	177.87	177.87
Spain (48)	150.85	-10.2	128.81	-12.8	-8.8	2.28	150.85	128.81	128.81	128.81
Sweden (35)	94.99	-1.0	82.41	-8.2	-3.8	2.08	94.99	82.41	82.41	82.41
Switzerland (62)	158.48	-2.0	134.88	-13.4	-7.8	4.78	158.48	134.88	134.88	134.88
United Kingdom (306)	151.52	-1.0	131.52	-13.1	-8.2	3.81	151.52	131.52	131.52	131.52
USA (642)	136.62	-2.8	120.26	-12.0	-6.8	3.68	136.62	120.26	120.26	120.26
Nordic (121)	162.55	-1.2	144.44	-14.4	-0.8	1.85	162.55	144.44	144.44	144.44
Europe (187)	165.40	-1.4	148.48	-14.8	-1.2	0.79	165.40	148.48	148.48	148.48
Europe-Pacific (1656)	154.89	-10.3	134.40	-13.4	-0.1	1.80	154.89	134.40	134.40	134.40
North America (852)	155.48	-10.3	134.40	-13.4	-0.1	1.80	155.48	134.40	134.40	134.40
Europe Ex. Japan (212)	130.95	-3.0	113.60	-11.3	-4.6	2.79	130.95	113.60	113.60	113.60
World Ex. Japan (1949)	154.86	-10.1	134.40	-13.4	-0.1	1.80	154.86	134.40	134.40	134.40
World Ex. UK (206)	144.58	-10.2	125.41	-12.5	-9.5	2.41	144.58	125.41	125.41	125.41
World Ex. USA (2331)	145.15	-9.8	125.82	-12.6	-9.4	2.41	145.15	125.82	125.82	125.82
World Ex. Japan (1836)	135.25	-9.7	117.33	-11.7	-9.4	3.68	135.25	117.33	117.33	117.33
The World Index (2391)	145.51	-9.6	126.24	-12.6	-9.3	2.42	145.51	126.24	126.24	126.24

Base values: Dec 31, 1989 = 100; Finland: Dec 31, 1987 = 115.037 (US \$ Index), 80.781 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 100.00 (US \$ Index), 114.45 (Pound Sterling) and 123.22 (Local).

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CONSTITUTIONAL CHANGE 20/90: Name change: Ocean Transport & Trading to Ocean Group (UK).

Trading on the Helsinki exchange has been reduced following a banking employees dispute.

POUND SPOT-FORWARD AGAINST THE POUND

Feb.23	Day's spread	Close	One month	% change	Time	% change
100	1.7090-1.7100	1.7095	1.7095	0.00	2.74-2.71	0.38
100	1.7070-1.7080	1.7075	1.7075	0.00	2.74-2.71	0.38
100	1.7050-1.7060	1.7055	1.7055	0.00	2.74-2.71	0.38
100	1.7030-1.7040	1.7035	1.7035	0.00	2.74-2.71	0.38
100	1.7010-1.7020	1.7015	1.7015	0.00	2.74-2.71	0.38

DOLLAR SPOT-FORWARD AGAINST THE DOLLAR

Feb.23	Day's spread	Close	One month	% change	Time	% change
100	1.7090-1.7100	1.7095	1.7095	0.00	2.74-2.71	0.38
100	1.7070-1.7080	1.7075	1.7075	0.00	2.74-2.71	0.38
100	1.7050-1.7060	1.7055	1.7055	0.00	2.74-2.71	0.38
100	1.7030-1.7040	1.7035	1.7035	0.00	2.74-2.71	0.38
100	1.7010-1.7020	1.7015	1.7015	0.00	2.74-2.71	0.38

EXCHANGE RATES

Feb.23	£	DM	¥	FF	SFr	ITL	CS	B.P.
100	1.7090	2.980	253.6	6.55	2.00	2036	2.00	2.00
100	1.7070	2.978	253.4	6.54	2.00	2036	2.00	2.00
100	1.7050	2.976	253.2	6.53	2.00	2036	2.00	2.00
100	1.7030	2.974	253.0	6.52	2.00	2036	2.00	2.00
100	1.7010	2.972	252.8	6.51	2.00	2036	2.00	2.00

EURO-CURRENCY INTEREST RATES

Feb.23	3m	6m	9m	12m	15m	18m	21m	24m	27m	30m
100	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090
100	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070
100	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050
100	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030
100	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010

FT LONDON INTERBANK FIXING

Feb.23	3m	6m	9m	12m	15m	18m	21m	24m	27m	30m
100	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090
100	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070
100	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050
100	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030
100	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010

MONEY RATES

Feb.23	3m	6m	9m	12m	15m	18m	21m	24m	27m	30m
100	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090
100	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070
100	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050
100	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030
100	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010

LONDON MONEY RATES

Feb.23	3m	6m	9m	12m	15m	18m	21m	24m	27m	30m
100	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090	1.7090
100	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070	1.7070
100	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050	1.7050
100	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030	1.7030
100	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010	1.7010

Five to Fifteen Years

ECU Limited Dec. 84	---	---	---	10 1/8	11 1/8	11 1/8	11 1/8
Treasury Bills bid; one-month 1 1/8 bid; three months 1 1/8 bid; bank bills bid	---	---	---	---	---	---	---
one-month 1 1/8 bid; one-month 1 1/8 bid; one-month 1 1/8 bid; Treasury Bills; Average	---	---	---	---	---	---	---
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● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

INDUSTRIALS (Miscel.) - Contd.[illegible]

● For Latest Share Prices on any telephone ring direct-0636 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MINES - Contd							
Market Cap. \$m	Stock	Price	Div Yld	Vol Shs	Last ad	Dividend Paid	City List

Miscellaneous						
11	Allegany Mining Co. v	140				518
1,700	Do. Warrants.....v	85				507
	Anglo-Dominion.....	12 1/2				
195	Bond Ind. Gold.....	50				
27	Butte Mining Co. v	25				202

WDRX Inc.		17	-	-	-	5077
14.2% Exec Int'l ADs	v	18	-	-	-	5416
30 % Zimna Minerals Sp.	v	19	N7.0	1.6	Jan.	5417
0.610 Co. Warrants	v	19	-	-	-	5438
16.0 Gervor	v	20	-	-	-	5439
11 Greenrich Res.	v	22	-	6.85	-	5440
737 Ontario Gold Mines	v	23	\$020c	1.2	Dec Jun	5441
123 Interstate Mining S	v	24	020c	0.9	18.5 Fri Jan Aug	5442

45.6	Winn-Dixie Stores Inc.	14.0	-	-	-	-	-	-
45.6	Worthington Cos.	36.0	10.77	-	-	-	-	-
5.091	Wor-Quest Res.	16.6	-	-	-	-	-	-
15.5	Wyeth Res. Inc.	91.8	115.0	3.9	18.9	Dec	Jul	388
15.5	Young Group Inc.	184	7.8	6.5	4.9	Apr	Oct	508

FINANCIAL MARKETS

Market	Stock	Price	Bfr	Ytd	Last	Dividends	High
Cap. Inv			Met	Gr%	Pr	Paid	Low
2.30	ASS Barnett 2p....	72	—	—	—	July	5222
0.70	American Energy 10p...	46	1.6	1.9	8.5	—	1591
9.30	Amersys Hldgs 20p....	23	—	—	—	—	2781
0.30	Amersys Hldgs 20p....	22	—	—	—	—	1428
2.30	Arizona Res. 10p....	46	—	—	—	—	1428
1.90	Associated Farmers...	95	7	—	—	—	1428

3.05	Blackland Oil 10p.	37	-	-	-	-	-
2.96	Barmis Exploration	16	-	-	-	-	1933
2.84	Cafe Inns F1	220	-	-	-	-	5166
1.14	Caldwell Inns. 10p.	22	-	-	-	-	1993
4.75	Casper Oil 10p.	74	-	-	-	-	2111
1.66	Chesapeake Arisun Sp.	14	1.0	1.8	22.5	July	2113
0.70	ChemEx Intl.	15	-	-	-	-	2274
1.58	Chowder & Ice. Sp.	13	-	-	-	-	-

1.27	Da. Expt.	14			
7.18	Edw. Corp. Lease 5a	16	40.38	3,227.12	January
4.65	Edinburgh Hb. 20	94			
4.17	Edgiston Expts. 150a	96			1415
0.92	Do. Wrrnts	14			141.4
3.50	Far East Res. 10p	13			2540
7.92	East Forward Inv.	120			2835
1.13	Edwin Min. 10.20	45			4970

[illegible]

0.03 Kemp's T. Sp.	14	-	-	-	-	1428
1.08 Geographic Sp. v	6	-	-	-	-	167
3.29 Lf. W Sp.	74	-	-	-	-	9774
22.42 ending Leisure Sp.	46	12.0	6.7	14.8	Sept Apr	3142
0.23 M. L. Labs. v	334	-	-	-	-	4578
82.53 Makya Group 10p	46	12.0	6.7	18.9	October	3437
5.84 Mf-Stones 10p	75a	-	-	-	-	1845
0.92 Moray Flrh 10p	54	-	-	-	-	3412

3.54	Pennant Corp. 2p	19	0.2	1.4	19.6	August	1996
11.1	Puckington Sp.	65	-	-	-	-	1317
6.06	Ramsden's (Harry)	101	84.5	5.9	-	January	2011
8.54	Rentmaster Inc.	51	31.85	4.8	-	Mar Oct	5228
0.84	Scott Placid 10p	12	60.38	4.2	17.7	August	5042
1.0	Seacon Hldgs.	157	3.15	2.7	18.9	Oct May	3968
4.8	Sempersona	32	-	-	-	-	1645

7.93Tavern Leis. 20p	71	-	-	-	4867
8.85Tavern Leis. 20p	71	-	-	-	4248
2.22UPL Group 10p	55	22.75	22.5	Dec. July	4382
7.59Unit Group	143	5.0	4.7111	Jan Aug	4357
7.57Video Magic Leis. 10p	86	W2.0	3.1126.1	Jan July	5071
4.32Vista Exts 5p	41	-	-	-	7994
9.63Vivacaya Hider 5p	18	-	-	-	4193

20. **Whitton Group 1p...** 4 1/2 - - - - 3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: **α** Alpha, **β** Beta, **γ** Gamma.

Unless otherwise indicated, prices and net dividends are in pence and dividends are 25p. *Values are based on mid-market prices.*

- "Tap Stock"
 - † Interim since increased or resumed
 - ‡ Interim since reduced, passed or deferred
 - ## Tax-free to non-residents on application.
 - * Not officially UK listed; dealings permitted under rule 533/4(a)
 - US\$1.00 per listed on Stock Exchange and currency note

- 11 Not officially listed.
- 12 Price at time of suspension
- 13 Indicated dividend after pending scrip and/or rights issue.
- 14 Merger bid or reorganisation in progress
- 15 Not comparable
- 16 Same interim; reduced final and/or reduced earnings
- 17 Indicated
- 18 Forecast dividend

* Cover allows for conversion of shares not now having
dividends or ranking only for restricted dividend.
* Cover does not allow for shares which may also rank for
dividend at a future date.
No par value
b. Fr. Belgian Francs. Fr. French Francs \$s. Yield based on
assumption Treasury Bill Rate stays unchanged until maturity of
stock. a. Annualized dividend. b. \$/Franc based on present rates

dividend and yield. 1. Assumed dividend and yield after scrip issue. 2. Payment from capital sources. 3. *Kerns*, an interim higher than previous total. 4. Rights issue pending. 5. Dividend and yield excludes a special payment. 6. Indicated dividend. 7. Forecast, or estimated annualized dividend rate. 8. Subject to local tax. 9. Dividend and yield based on merger terms. 2. Dividend and yield include a special payment. 4. Net dividend and yield. 5. Preference dividend.

[illegible]

REGIONAL & IRISH STOCKS

Albany Int 20s.....	v	83	+2	Arnotts.....	448	+25
Croley & Rose £2.....	v	830		Carroll (P.J.).....	155	
Flinkey Pigs 5p.....	v	58	+2	U.S. (D. C. N.).....	165	
Holt Int 10s.....	v	193				

Cap. 84% Lt. 1996..	696 1/4	IRG.....	210
Syn Cap Lts. 1996..	590 3/4	United Drug.....	165
Fin. 13% 97/02..	516 1/8		

TRADITIONAL OPTIONS

Industrials	P	P & O Div	51
Allied-Lyons	41	Polys Pack	38
Amstar	6 1/2	Rural Elect	30
		RHM	39
		Rural Org Div	72
		Soc Ind	34
		STZ	36

50C Grp.	44	SmKI, Beecham A.	48
ATR	37	TL	38
Barclays	40	TSD	9
Blue Circle	28	Yescs	16
Boots	23	Thorn EMI	63
Bowmaker	99	Trust Houses	23
Brit Aerospace	46	T&N	161
British Steel	8	Unilever	57

Carburetors.....	31	Wetlands.....	20
Charter Costs.....	42		
Comm Union.....	40		
Courts/Clerks.....	31		
Enrolment.....	65		
FKI.....	8		
GNFC.....	22		
Gen Accident.....	92		

Property	
Brit Land.....	27
Control Secs.....	5
Land Securities.....	45

Grand Met.....	44	Alcon.....	23
Cardinal.....	19		
GKN.....	13		
Kenton.....	18		
Hawker Sidd.....	35		
ICI.....	90		
Jaguar.....	85		
	26		

		Oils	
		Brit Petroleum.....	25
		Burmah Oil.....	68
		Charterhoff.....	24

Let Service	26	Prother	10 1/2
Lloyds Bank	21	Steel	57
Lucas Inds.	54	Tankar Res.	12
Marks & Spencer	14	Ultramar	28 1/2
Midland Bk.	26		
Morgan Grenfell	38		
Nat. West Bk.	23		

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The Business Column

Thinking twice about dirigisme

Things are not going well for the American industrial policy lobby. Though it gained influential converts in the late 1980s, it has failed to persuade the Bush Administration that the competitive ills of US industries such as semiconductors and computing can be cured by a dose of dirigisme laced with lavish government subsidies.

Now, one of the movement's leading lights, Mr Robert Reich of Harvard University, has issued what amounts to a public recantation. In an article in the Harvard Business Review, he tacitly admits that the remedies to declining US competitiveness which he and others once favoured were based on a fundamentally wrong diagnosis.

Illusory

The crucial mistake, he says, was to assume that the economic interests of the nation and those of US-owned manufacturers were identical. But the link is illusory. By expanding their investments abroad far faster than at home, American firms have succeeded better than the country as a whole in maintaining their share of world trade.

The companies which are really doing their bit for US employment and prosperity are, he insists, are increasingly foreign-owned. Their US operations contribute substantially – and often more than their home-grown competitors – to local skill levels, management quality, technology and industrial value-added. They also pay their staff better. In sum, growth of foreign direct investment is not a Trojan horse but a gift horse.

Reich does not attempt to explain why foreigners should be pouring into the US just as its own companies are rushing in the opposite direction. He merely points to the "globalisation" and – in the case of Japanese firms – US protectionism play a part. But the blinding revelation that America's best friends are not who he had once supposed leads him to some useful conclusions.

Myopia

Washington, he argues, is simply wasting its time bludgeoning Tokyo into opening its domestic market to imports of products like mobile telephones when the only handset exported to Japan from the US are produced by Japanese-owned companies.

It is no less myopic to limit membership of collaborative projects, such as the Sematech microchip programme or the proposed high-definition television consortium, to American-owned companies.

Such ventures, he says, should be opened to any electronics manufacturer with US research and manufacturing operations – Japanese included.

As Reich points out, a country's most important competitive assets are the skills of its workforce and its technology base. In a world of mobile capital, discriminating between companies simply on the basis of ownership leads to inefficient use of scarce resources and, ultimately, to self-improvement.

Reich's article is a refreshing antidote to US paranoia about supposed foreign threats to its economic sovereignty. It also offers lessons to Europe, where "strategic industry" arguments have persuaded Brussels to fund a costly programme to help European companies produce advanced microchips. The manufacturers insist Europe must have the capacity to make such components if it is to remain at the forefront of technology.

Yet Brussels has also introduced rules which require semiconductor manufacturers to make their European Community to be made there, compelling most leading US and Japanese producers rapidly to expand their local production facilities. Once that capacity comes on stream, it may be a most curious irony when the EC's industrial interests lie.

With indigenous chipmakers, who are struggling to stay in the business? Or with US and Japanese producers, who already dominate the EC's market and appear set to control most of its onshore production?

Guy de Jonquières

* "Who is Us?", HBB No 1, 1990.

MONDAY INTERVIEW

Cautious man of the Party

John MacGregor, UK Secretary of Education, speaks to Michael Prowse

John MacGregor, the short bluff Scotsman in charge of British education, is nothing like as good a salesman as Kenneth Baker, his predecessor. Fine phrases do not trip off his tongue. He could never make a living selling encyclopedias. But he more than makes up for presentational weaknesses by conveying a genuine interest in his subject.

It is fairly clear from my background, he says, "that I have a typically Scottish view about the importance of education." At public school in Edinburgh, Mr MacGregor was "very much the scholarship-boy type." He swotted away in the sixth form, passing five rather than the normal three A levels and then spent seven years at university: four at St Andrews, where he specialised in economics, and three at King's College London, where he read law. As if this were not enough, he then took a job as a university administrator.

So it is reasonable to guess that Mr MacGregor actually likes schools, universities and the process of education. This commitment to education is encouraging, but not, of course, a guarantee that he will succeed in raising Britain's often lamentably low standards.

One possible reason for low standards is that a large proportion of rich and influential people has always sent their children to expensive independent schools – and thus never cared a fig about the quality of state comprehensive schools. The independent sector educates only about 6% per cent of the population but wins more than 50 per cent of the places for home students at Oxford and Cambridge. Did Mr MacGregor consider this evidence of great inequality of opportunity?

"A great believer in choice and variety," was the predictable reply. Mr MacGregor said many parents who choose the independent sector are "first-time" buyers, having themselves been educated in state schools. This indicated a level of dissatisfaction with state education which the Government was striving to improve via reforms such as the new national curriculum.

Somewhat lamely he added that some state schools were getting extremely good results, including Oxford scholarships. "I have some in my constituency," he confessed. But he did not directly address the point that the country as a whole heavily influences an individual's chance of attending the best universities.

The Government's reforms will only work, I suggested, if schools can attract teachers of the right quality and provide a suitable environment for learning. Yet recent reports from

the teachers' advisory committee on pay, Her Majesty's Inspectorate (HMI) and others painted a frightening picture of a service under strain.

I gave a few examples. After 10 years of Tory management, a third of teachers say they would leave the profession if they could; only 15 per cent retire at the normal age; recruitment is 35 per cent below target in physics; the HMI says a quarter of schools (some 1,000) are not performing satisfactorily; in 20 per cent average attendance is below 90 per cent.

"You've got to look at comparative levels," interjected Mr MacGregor, anxious to stem the flow of awful statistics. "There has been considerable progress in the 1980s. I could quote a lot of statistics back at you. The HMI report also says that 70 to 80 per cent of all teaching in schools is satisfactory, good or very good."

Mr MacGregor concedes that there are serious shortages of teachers in some subjects. But most of these are in areas where skills are in high demand throughout the economy – such as languages. He complains that the shortages experienced by other industries are just as pressing, but do not get the same publicity.

On morale, he says it is not surprising that some older teachers "frankly run out of steam" and cannot face the changes being introduced, such as local management of schools and the new curriculum.

The key thing to ensure is that we have a supply of good eager replacements." He adds that perceived status is also terribly important. Head teachers have to believe their work is valued by society.

But surely, I argued, if you want to revive the sector, you must ensure that resources flow into education in a big way, as they have into, say, financial services. Since the Government lacks the will to raise education spending significantly, it logically should ask parents to contribute towards the cost of state education. They spend huge amounts on consumer durables and foreign holidays and would probably want to spend more on education than his budget allowed.

Mr MacGregor struggled not to smile. "Are you talking about vouchers or something like that?" he asked.

It does not matter how it is done, I said, I'm simply asking whether it makes sense to fund this crucially important commodity through taxation if constraints are placed on the rate at which tax revenue can grow.

Cautious became Mr MacGregor's watchword. "Vouchers have been looked at on several occasions and they are certainly not in my sights." However, the fact that he got Cabinet approval within 24 hours to implement the advisory committee's pay recommendations in full indicated the priority he attached to getting more resources for education.

"I do also think that there is absolutely nothing wrong, and

indeed every virtue, in encouraging parents to contribute towards the cost of their own children's education. But to contribute a great deal more to things such as equipment and books... I see nothing wrong in that but it's always going to be a small proportion."

But why should it be a small proportion? "Because otherwise you're moving into a voucher system."

Under a voucher system, state spending on education would be redistributed directly to parents. They could spend the vouchers how they pleased and top them up with their own money. Artificial restraints on the total level of educational spending would disappear.

Mr MacGregor was not able to explain cogently why he objected to vouchers. He simply declared they were not "the political priority at the present time."

But he denied that the introduction of vouchers would be "inevitable" at some point during the 1990s. In the meantime, schools had more than enough reforms to cope with.

Turning to what children are taught, I asked whether Mr MacGregor agreed that the new national curriculum was old-fashioned. The curriculum makes traditional subjects such as geography, history and art compulsory, but does not require students to study economics.

"Hang on a minute, let's keep a sense of perspective on this," was his slightly flustered reply. "As far as market awareness and the role of economics is concerned, no one is more



I'm a great believer in choice and variety

passionate than I." But drawing up a new curriculum was a "horrendously difficult task," finding room for the traditional subjects meant fitting a "quart in a pint pot" and leaving the crumb of groups such as classics. Mr MacGregor suggested a vague place for economics might be found as a "cross-curricular theme" or as an extra-curricular item.

This seemed an unsatisfactory reply. I said it was not obviously more important to teach children about the structure of the atom than about the nature of the price mechanism. But Mr MacGregor was unwilling to concede fundamental flaws in the structure of his compulsory curriculum.

Switching to post-16 education, I asked whether he was concerned that after 10 years of Tory management the HMI had found that 36 per cent of schools offered sociology A level but only a mere 15 per cent offered vocational courses sponsored by the British Technician and Education Council (BTEC).

He agreed the needs of the post-16 age group had to be addressed. This was the "next stage of development" of the Government's reforms. He accepted that A level courses were not right for all 16- to 18-year olds and that there needed to be a strong emphasis on vocational education if staying on rates (which are among the lowest in Europe) were to rise.

But characteristically he refused to accept the case for root-and-branch reform. I pointed out that the A level system virtually precluded the possibility of a balanced curriculum because you could not cover much ground if only three subjects were offered for examination.

Mr MacGregor's response was that pupils would at least enjoy a broader education up to the age of 16 and that he had asked his advisory bodies to look at ways of combining A levels with vocational courses and "core skills" such as numeracy and information technology. He also expressed confidence in "AS levels", which are a new type of shortened A level.

The impression I took away was that Mr MacGregor would sooner die than contemplate radical reform. He will implement present policy diligently, but the kind of changes needed if the relative decline of state education is to be halted must await a much bolder politician. Meanwhile wealthy parents will continue to vote with their children's feet.

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Dervishes turn towards a renaissance of Islam

Each Mevlevi in the file moving with stately mien beneath a tall, fawn fez bowed to kiss the grand master's ring. Then to the calm, majestic cadence of the sema – a rhythmic fugue by drum, reed flute, zither and other stringed instruments they unfolded their arms up and out, whirling away with billowing white skirts into a mystic communion with their God.

The whirling Dervishes of the Mevlevi sect were performing in December before President – formerly Prime Minister – Turgut Ozal in the Atatürk sports hall in Konya, the Islamic centre of Turkey.

The Mevlevi were established in Konya in the 13th century by the great poet and philosopher Mevlana Celaleddin Rumi. Along with other Islamic brotherhoods, the sect was proscribed in the fervent secularism of Mustafa Kemal Atatürk, the nationalist leader, founded the republic in the 1920s.

They were permitted to start whirling again in 1963, ostensibly only for the preservation of Turkey's artistic and cultural heritage. But the ceremony seen by Mr Ozal was imbued with far more spirit.

An impassioned speech calling on all to venerate Mevlana and his beliefs by Mr Namik Kemal Zeybek, the right-wing Minister of Culture, set the mood as Mr Ozal was ushered to his seat by Mr Mehmet Koceler, the MP for Konya. Mr Koceler is the leader of the dominant "holy alliance" of Islamic conservatives and right-wing nationalists in the ruling Motherland Party (ANAP).

Officially, Turkey remains the secular state conceived by Atatürk. The military, which at the highest level considers itself the guardian of this tradition, periodically conducts "witch-hunts" for religious fundamentalists which it thinks may threaten the modern order. The most recent purge turned inward on the army, with 300 officers and NCOs.

The Mevlevi themselves in no way present the sort of threat to the secular state now typified by Near East governments by theocracy in Tehran. Theirs is a quietistic philosophy incorporating a belief in love, tolerance and God's



LETTER FROM KONYA

omnipotence. In any case, the cult of sainthood at the centre of the sect is anathema to the purist austerity of Islamic fundamentalism. Fringe groups apart, Islam in modern-day Turkey is largely pious worship, not violent proselytising.

Yet there is no doubt about the resurgence of Islam in Turkey. It is most visible in the austere mosques under construction and newly built, and in the proliferation of neighbourhood Koranic schools. Some interpret the resurgence as a retreat from crushing inflation and consequent economic and social distress.

Mr Ozal's visit to Konya so early in his seven-year term after his election in November is yet one more indication that the state will now look far more benignly on manifestations of Islam than it did under former President General Kenan Evren. Last month, there were demonstrations in Istanbul and Ankara demanding that the great mosque of Aya Sofia, once the cathedral of Constantinople, be returned to public prayer from its present status as a museum.

President Ozal is a devout believer. In the first three weeks of his term he attended Friday prayers ostentatiously at large Ankara mosques until persuaded that it was not presidential form.

He last made the Haj pilgrimage to Mecca in 1988 after escaping an assassination attempt against him in June of that year.

Another indication of Islam's new-found acceptability was the lifting in December of a ban on the wearing of Islamic headgear – most commonly young girls' headscarves – at institutions of higher education. In 1988 the "holy alliance" had pushed through Parliament a bill repealing the ban but this repeal was later can-

celled by the Constitutional Court.

The end-of-December decree instead quietly removed the relevant article from the higher education law – but left the final decision on the matter up to individual universities and they are certainly not in my sights.

However, the fact that he got Cabinet approval within 24 hours to implement the advisory committee's pay recommendations in full indicated the priority he attached to getting more resources for education.

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Position
Address
Postcode
Telephone
Signed

DISCOUNTS APPLY TO THE TOTAL NUMBER OF ITEMS ORDERED FROM THE RANGE.

The discounts shown below apply when your order totals more than 25 items. Our payment terms are net 30 days. Discount prices exclude VAT and delivery costs. We will calculate the exact discount on your order, and add this charge back when applicable to your order.

DISCOUNT BANDS

PERSONAL GREETINGS
We will be delighted to include your greetings cards or also text on the relevant discount bands. Please return the FT Collection Catalogue, Financial Times Business Information Ltd, The Floor, 50-54 Broadwick, St. James's Park, London SW1A 1BN. Tel: 01-799 2002. Fax: 01-799 2003.

CREDIT CARD HOTLINE
Telephone orders for less than 25 items: 01-799 2274
With your credit card order details
Cardholder's Name (Block Capitals)
Cardholder's Signature

BRASS FOR YOUR LOGO
☐ Brass required ☐ Artwork enclosed ☐ Brass FT logo
How to pay: Payment must accompany order, except on order over £100 (incl. VAT) from UK registered companies which will be payable to FT Business Information Ltd on a Standing Account made Tick Method of Payment

☐ Cheque ☐ Money Order ☐ Access ☐ Visa ☐ Amex ☐ Card No. ☐ Exp. Date ☐ (Please complete, as your order may be returned if expiry date is not shown) (If the billing address differs from the above, please notify us.)

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